reason

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JUNE 1977

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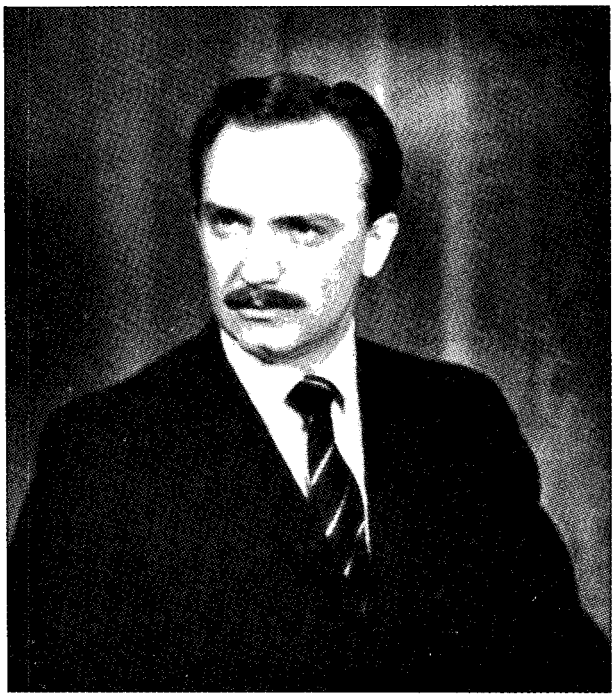
LAWRENCE PATTERSON

EXPOSES

A CENSORED PRESS IN AMERICA !!

. . . and why you must be kept dumb !



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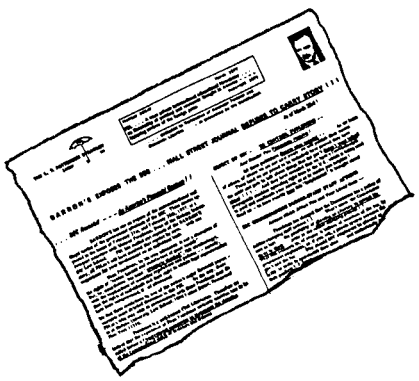

. . . Sabotage in South African mines (June '76 issue)
. . . How the SEC Aids the Government in Confiscation of Private Savings (Every issue)
. . . Coverups of SEC Wrongdoing by Other Publishers (March '77 issue)
. . . How the Press Lies about Stock Market Performance
. . . What You Are Not Told about Your Retirement Savings – – – and
. . . WHY – – You Must Be Kept Dumb ! ! . . .

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In addition to PSL, Mr. Patterson also publishes the Freedom Fighter Index and the Conspiracy Theory Catalog. Mr. Patterson is the author of SWISS REAL ESTATE – And How to Retire in Switzerland, and has an independent consulting practice, specializing in precious metals and foreign currencies. Write for more information to Box 37432, Cincinnati, Ohio 45237 U.S.A. or to Box 987, 4001 Basel, Switzerland.

17 best hedges against the devastating 1977 INFLATION

You've been hearing a lot of talk lately about an "upturn in the economy" and a "return to prosperity."

What's the *truth* behind these optimistic predictions? Are good times *really* here again?

Don't believe it! Inflation will be *back* this year—and *worse* than ever before.

Not many people understand what's going to happen. As a result, few will be prepared to survive the coming crisis. And fewer still will know how to *profit* from the many opportunities renewed inflation will offer.

What about you? Will you be one of those who survive and prosper? Or will you like most Americans—sit back and watch helplessly while your income and savings depreciate in value?

In just a moment, we'll tell you about 17 ingenious inflation hedges you can use to protect yourself and profit from the new 1977 inflation.

But first, you should know exactly why renewed inflation is inevitable. And why nothing the President or Congress (or anyone else) can do will prevent it.

RUNAWAY INFLATION IN AMERICA?

The 1933 dollar is today worth just 23 cents. And it's still falling! In just four decades, consumer prices rose by an astonishing *344 percent!*

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Living costs are ready to *explode.* Shocking *shortages* will follow. The gasoline and food shortages of 1974 were just a hint of what's in store. Bankruptcies by the thousands. Banks collapsing by the hundreds. State and municipal governments will fall into bankruptcy. In some areas, *violence, food riots,* and *physical danger* will follow.

Exchange controls will prevent you from sending your money abroad. The government may again outlaw private ownership of gold. Foreign travel will be restricted. Wage and price controls will be imposed once again.

Unemployment and *food lines* will be in store for most Americans. People living on fixed incomes will be wiped out. Social Security benefits, savings, pensions and insurance policies will become worthless.

YOUR OWN INFLATION-SURVIVAL INSURANCE PLAN

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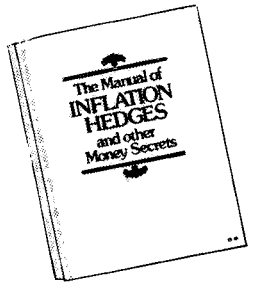

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"CUT LOCAL TAXES is a 'do it yourself' handbook that could save the hard-pressed American taxpayer tens of millions of dollars."
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You CAN Cut Local Taxes

Once in a while, a book appears that promises to have a direct impact on politics. **Cut Local Taxes** is such a book. Taxpayers across the country today are angry about rising assessments and property taxes. They have expressed their feelings by voting down bond issues and new spending proposals. Yet taxes continue to soar—and citizens are looking with increasing concern for a solution to the problem.

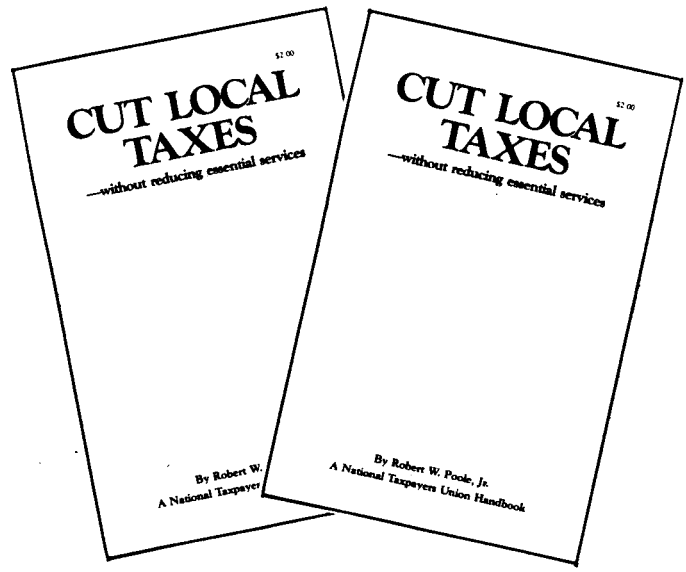
Cut Local Taxes shows that taxpayers can find relief. The author, professional consultant Robert Poole, Jr., has sifted through the cost-cutting breakthroughs created by some communities. He highlights the best and most effective of these changes, with particular emphasis on reforms that can be adopted by most local governments, large or small.

In some cases, indeed, the savings can be startling. Medium size cities report average savings of about 70 percent after switching from municipal to private contract garbage collection. Thirteen communities in Arizona enjoy a new system of quality fire protection that costs half that in nearby communities which use conventional techniques. Large economies can also be obtained in the school system and the public works department.

Virtually none of the reforms described in the handbook entails a drop in the levels of services. Some actually improve the quality of services provided, by shaking the local government bureaucracy from lethargic or self-defeating habits. This aspect makes the breakthroughs attractive to voters who want to preserve existing services at less cost to the taxpayer.

The descriptions in this book are clearly worded and simple to understand. You do not have to have a degree in public administration to profit from **Cut Local Taxes.** If you are a taxpayer looking for ways to economize in local government, you will find them here. A special reference section shows where you can get additional hard facts once you have targetted an area for your efforts. And a chapter discusses the potential rewards and pitfalls of different ways to introduce the cost-cutting ideas into public debate—in particular, how to launch a political campaign or start a taxpayers' group.

If you want your local taxes to keep rising, you have only to do nothing. On the other hand, if you want to keep what you have earned and prevent your community from succumbing to fiscal ailments, you will find the ideas in this handbook most useful. They can do the work of a meat-axe with the precision of a scalpel.



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JUNE 1977/Vol. 9, No. 2
A forum for analysis and commentary, with an emphasis on individual liberty

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This month's cover, by Phil Groves, announces our fourth annual Financial issue.

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LETTERS

UNDERCUTTING GOVERNMENT

In his recent article [February] John Hospers asks: "Unless you are in the very seat of power, how are you going to dismantle it?" I would answer: by cutting off the legs that support the seat. Our present government operates only because most people support it. If a large enough number stopped believing in this kind of government, and it probably wouldn't require a majority even, and if they began to treat it like any other criminal conspiracy, then the government could no longer function.

What Hospers misses is that for libertarian ideas to spread throughout the culture is both a necessary and *sufficient* condition for a free society. He sees that no armed revolution would then be necessary. But equally, no political action would then be needed either, because the government would be rendered impotent. The existence of a libertarian culture implies that many bureaucrats and military people would also be libertarians. They would prevent government from enforcing its edicts against noncoercive people. And that, combined with individual defensive actions, would effectively nullify coercive government.

Hospers mentions the situation of a Jew in Nazi Germany to show that there are instances when a government cannot be ignored. Of course that's true, just as there are instances when the weather shouldn't be ignored. But Hospers implies that the only way to fight government is by political action. And that isn't true; direct and individual defensive measures are often more cost-effective. For example, surely Hospers wouldn't have told a German Jew to defend himself through political means. With the benefit of hindsight, I would recommend that he get out of the country, or arm himself and kill Gestapo.

Similarly, an OSHA or ICC victim, for example, should calculate whether political action is the most effective means of resistance. Often underground business activity is a better alternative. I have personal knowledge of a number of counter-economic businesses that operate quite successfully, illegal, untaxed, and unregulated. More and more tradespeople, e.g. carpenters, painters, mechanics, etc. are operating under the counter and most of them aren't even ideological libertarians. This choice has a certain risk, but the benefit is that at one stroke all present and future taxes and regulations are eliminated. And the real risks are often less than you would think because the government's power to enforce is not unlimited. One should calculate the present cost of the real future risk and compare that with the cost of complying with regulations.

Hospers' casuistic defenses of government restrictions and welfare payments is particularly disgusting. This kind of argument can be used to justify almost any government usurpation. If the government has any contractual obligations, the contract binds only those who agreed to it; that is, the elected politicians who voted for it. In particular, those thieves in office are not my agents. I didn't vote for any of them, and they have no power to make contracts binding on me.

When is Hospers going to realize that money paid in social security taxes is simply gone, already spent, as effectively as money taken in any other swindle? If a con man defrauds a victim in a phony stock scam, would Hospers hold that others in the community are obligated to compensate the victim? The case is identical regarding social security. Government is just like any other criminal.

If the social security welfare payments are stopped, I'll help take care of those persons I'm concerned about. Others will have to make do as best they can. If Hospers is so concerned about the poor, he can contribute to their support at his own expense, but he'd better keep his hand out of my pocket. In this he sounds like every bleeding heart liberal who is so eager to be charitable, but always at someone else's expense. Let me reiterate that property belongs to the productive person who creates it, and that is an absolute. If you can't stomach the consequences of that, then don't call yourself a libertarian, because you are not.

As a general comment on Hospers' entire approach, I'd like to remind you of a quote from the black liberation

(continued on page 10)

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EDITORIAL

SACCHARIN AND HUMAN LIBERTY

"I've never seen anything like it. The calls range from diabetics and people with weight problems almost plaintively asking what they can do now, all the way to zealots demanding that they have total freedom to decide what they're going to put in their bodies . . . ."

– Unidentified FDA Spokesman
March 17, 1977

The Food and Drug Administration's proposed ban on saccharin raises once again the question of the relationship between the citizen and the State. In March the FDA announced a ban on saccharin, effective July 1, based on tests in which rats fed the equivalent of 1000 cans of diet soda per day developed bladder cancer. In making its decision the FDA ignored vast amounts of evidence from studies of *humans* which fails to indicate any link with bladder cancer. Dr. Kurt Isselbacher of Harvard Medical School cites studies of 20,000 people dating back to 1935; Dr. Irving Kessler of Johns Hopkins has conducted controlled studies of 1000 saccharin and cyclamate users, with similar findings. Yet so rigid are the laws under which the FDA operates that it was legally required to ban saccharin based on the rat experiments.

The FDA dates its existence to 1906 and passage of the Pure Food and Drugs Act, aimed at protecting consumers from fraud and mislabeling. The law was strengthened in 1938 by the Food, Drug, and Cosmetic Act, which required manufacturers to test new drugs for safety and report the results to the FDA. That law also gave the agency the power to remove from the market drugs it could prove unsafe. The FDA has similar power over food additives like saccharin. In 1958 the agency's control over food additives was substantially increased when Congress passed an amendment authored by one James Delaney of New York. That amendment, which bears Delaney's name, states that "no additive shall be deemed to be safe if it is found . . . after tests which are appropriate for the evaluation of the safety of food additives, to induce cancer in man or animal." Under this law the FDA is required to ban any substance which can be shown to cause cancer in laboratory animals, regardless of the quantity ingested, the lack of similar evidence in humans, and the extent of benefits afforded humans by use of the substance. Even today the Delaney clause is hailed by many natural food adherents as a landmark in consumer protection legislation.

The fundamental premise underlying FDA regulation of drugs and food additives is *control.* The agency's approach (and that of the Congress) attempts to *guarantee* the safety of the substances under its jurisdiction. To do this, it adopts hypercautious methods aimed at making certain that no one may use potentially risky substances. If millions of people must forego various benefits in exchange for this guaranteed security . . . well, those are the breaks, folks.

You can see the same thinking at work in the FDA's approach to effectiveness testing. Under the 1962 Kefauver/Harris amendments, the agency requires drug manufacturers to prove not just the safety but also the effectiveness of every new drug. Economist Sam Peltzman has demonstrated that the FDA's hypercautious approach to this mandate has cut in half the number of new drugs being introduced, doubled their cost, and led to thousands of deaths and illness that could have been prevented by earlier introduction of life-saving new drugs (many of which are available abroad).

Once again, by seeking to guarantee that drugs are effective, the FDA precludes people's options, making choices for them that they might not have made for themselves. The alleged cancer treatment Laetrile offers another poignant example, as do Federal laws preventing even terminal cancer patients from receiving heroin or LSD for relief from excruciating pain.

Ultimately the issue boils down to the following: who is to be responsible for one's (potentially risky) choices– the individual or the State? Most people agree that individuals have the right to take such risky actions as going swimming, driving automobiles, going skiing, hang-gliding, smoking cigarettes, and drinking liquor. Each of these is potentially lethal, yet is considered within an individual's competence to choose. How much less risky is deciding to drink a can of diet soda–especially if one is a diabetic? But even in cases where the action may not appear rational to an observer –using "quack" remedies, taking heroin, playing Russian roulette–by what right is anyone justified in interfering with an individual's freedom of choice? Either one is free to take risky or irrational actions with his own life or one lives only at the sufferance of the State. In the latter case the concept of freedom is meaningless.

"What you say is all well and good," defenders of the FDA will argue, "but it neglects the fact that the average person lacks the knowledge to assess the risks of drugs and food additives. He may not even know he's being exposed to food additives. How can people make proper choices if they lack the necessary information?" Indeed, they cannot, but this fact hardly justifies the FDA's attempt to make their choices for them.

In a free society no such entity as the FDA would exist, but there would still be a need for information on the risks and benefits of various substances –drugs, food additives, chemicals, etc. It is quite likely that various specialized consumer information services would exist to meet the demands for information of various groups of people–health food fans and average consumers concerned about foods, physicians seeking feedback on the effects of prescribed drugs, industrial unions seeking to protect their members from harmful substances. Each constituency would seek certain kinds of information, and would presumably be willing to pay for it.

We do not yet live in a free society, of course. And although we are, today, much plagued by the FDA, it seems politically impossible to abolish it. Complain as they might about bans on saccharin, Laetrile, and the like, most people are still terrified of another Thalidomide incident and can't yet conceive of depending on marketplace institutions as sources of protection. It remains a source of security to them to have Big Brother FDA in Washington blessing their food and drugs.

But if abolishing the FDA is not yet in the cards, a radical change in its functions could move us substantially in the direction of a marketplace solution. Congress should remove from the FDA all power to coerce, leaving the agency strictly as a source of information. No longer could the FDA compel manufacturers to conduct tests or fill out mountains of forms; no longer.

(continued on page 83)

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LETTERS

(continued from page 6)

movement: gradualism in theory, is perpetuity in practice.

Jim Stumm
Kenmore, NY

ON HOLDING POLITICAL OFFICE

"What is wrong," Prof. Hospers asks "with [holding political office] as long as the libertarian . . . uses his office to curb the power of government, never expand it?" He argues that dismantling the State from the inside is better than "sitting carping on the sidelines every time Congress leads us further down the path to Statism;" it is better to dismantle the State from the inside than to cry "The ship is sinking, but don't you dare put your hands on the tiller!"

The manipulation of the steering controls of a sailing vessel might, for all I know, actually be the proper response to a sinking ship. It would not be my response, but then, from yachtsmanship I know nothing. I would have thought, however, that it would be more appropriate to say "The ship is sinking, and if you put one more hole in her bottom, I'll blow your head off!" Nor is it obviously true that "carping on the sidelines" is less preferable than holding political office. We are convinced that it would be nice to "curb the power of government;" we are so convinced of that that we may be easily misled into believing that therefore the *use of political office* to "curb the power of government" is also a proper moral activity. But if the holding of political office is illegitimate in the first place, then what do we say? Any libertarian, who holds, or seeks to hold, political office, ought to answer these questions: Will he accept tax money in payment of his salary? Will he accept tax money in support of his office staff, rent and supplies? Will he enter the buildings of government, *as a member of that government,* and proceed to make use of such facilities as are necessary for the prosecution of his duties? Will he say to himself: "Let me see. How best can I make use of these funds, which have been given to me by this organization, and which have been extorted from innocent people? Shall I use this money first to feed and clothe myself? Or for taxi fare to and from the Senate, that place where other members of this organization of thieves and meddlers regularly congregate? Or for printing up a colorful booklet to send to the people whom I represent, but do not really represent, in order to keep them informed of the purposes to which I am putting their money, which I have willingly accepted from the thieves who took it; or shall I send them an inexpensive note in order to remind them that, although I have *willingly* joined this band of robbers, I am not really one of them myself?" Will he, when the time comes, stand up and advocate the abolition of all taxes? Or will he vote "Yes" to a proposal which would only *reduce* taxes, but which would nevertheless tax people, by that very amount for which he voted? Will he, when the voting is done, and when the vote has gone against him, report to the innocent people whom he does not really represent, and who may not even have wished him to hold office in the first place, that he is so sorry, but that the organization, of which he is a *willing member,* has decided to continue stealing money from them, and that he has decided to stay on, whether all those innocent people wish him to or not, and accept so much blood money as will enable him to maintain a comfortable existence as a *willing member* of that organization of thieves and bunglers?

If exercising political power is at the very best a morally suspicious activity, then the holding of political office *for any purpose* is morally suspicious. If a libertarian cannot join a group of thieves without also doing a little robbery himself, then it is his duty to refuse membership. Let him kill the thieves or unmask their true character. But let him not betray the very victims he thinks he will save. It would be far more in keeping with his principles to carp on the sidelines.

David B. Suits
Dept. of Philosophy
University of Waterloo
Waterloo, Ontario

ALTERNATIVE STRATEGIES

Dr. Hospers' defense of political activism overlooks an important point. Dr. Hospers writes as if there were two choices: political activism or self-liberation efforts. In fact, there are three: political activism, self-liberation efforts, or doing nothing. Leaving aside the question of whether Dr. Hospers is correct in supposing that self-liberation cannot produce freedom (in fact, he seems to equate it with doing nothing, and I doubt that he has explored its possibilities very fully), this supposition does *not* mean that we should all become political activists. It still has to be shown that political activism *can* produce freedom; if it cannot, then it is preferable to do nothing.

More specifically, we can compute the expected payoff of political activism by standard mathematical methods. Multiply the probability that my performing an act will make the difference between success and failure, and the value of that difference to me: the product is the expected payoff. Compare this with the expected cost, computed by similar methods. By this result, voting, party activism, and the like simply do not pay; the benefits are too widely dispersed, and they can only be successful if so many people take part that my involvement is unnecessary anyway. Such methods as bribery, exploitation of legal loopholes, and so forth, are preferable; or simple lawbreaking, carried on carefully enough to evade detection.

Further, it is not obvious that the Libertarian Party can produce freedom at all, never mind the cost. Certainly, it may be a political success. Let us remember, though, that there is always a demand for the corruption of political leaders, coming both from the desire of those leaders to secure their power and privileges, and from the desire of interest groups to get privileges. Dr. Hospers' evident wish to avoid stepping on the toes of people who have relied on government offers an entrance for such corruption. Sufficient moral fervor might prevent such corruption, but history shows us what moral fervor can lead to: fanaticism, a warped perception of the universe in which all but a few elect figures are under constant suspicion of wrongdoing. I wonder how fair a trial acidheads and homosexuals would get in an Objectivist court, or whether the liberty to criticize Libertarian Party positions would be protected as carefully as the liberty to support them? In fact, all too often, both faults are found in the same person: the idealist who sacrifices the powerless to his cause, while being bribed by the powerful into accepting "necessary compromises" while "consolidating" his position.

I do not hope to create freedom through my own efforts. I hope to protect myself from the worst excesses of statism, within the constraints of loyalty to my friends and my own integrity; and perhaps to see continuing technical and economic change leave the government impotent. But working with the Libertarian Party or similar groups will not speed this, and it will impose on me an additional tax:

my money, work, and loyalty will be drained to give the leaders a larger dose of power and prestige. If I wanted to do that I would support the present government. Admittedly it pays off for leaders such as Dr. Hospers to work for the Party, but for followers and supporters the only reward is the fradulent currency of moral satisfaction.

William H. Stoddard
Chula Vista, CA

Dr. Hospers replies: It would take many pages to reply in detail to all the points raised in the letters. I shall be able here to touch on only a few of the important ones.

More than one letter attacks me for saying that political action is the only way of implementing libertarian ideals. Far from saying that, I explicitly said that political action is at best a *supplement* to the educational task of libertarians, since if the latter is not done the former would never succeed. Need I say more?

Mr. Stumm writes, "If a con man defrauds a victim in a phony stock scam, would Hospers hold that others in the community are obligated to compensate the victim?" Of course not—as if *that* question needed answering. My point about social security was that many people were forced against their will to pay into it, if they were to be employed at all. Mr. Stumm would not want to compensate even these people, the innocent victims. But the matter cannot be so summarily dismissed—there is surely a problem here: either one set of victims is sacrificed (those who were forced to pay in), or another set of victims (taxpayers) will be levied an increased tax to indemnify the members of the first class of victims. If this were the situation, there would indeed be a real problem.

But I do not believe that this problem need arise, because I do not believe that the innocent victims of the social security system need be paid out of tax money. As long ago as 1971, in my book *Libertarianism*, Chapter 9, pages 388-391, I suggested that government assets be sold to pay for these things. The U.S. government owns 40 percent of the land in the United States (national forests, national parks, deserts, oil-shale deposits etc.); why not another Homestead Act? Government wrongfully owns all kinds of enterprises, such as the Post Office, which could and should be sold to the highest private bidder. The proceeds could be used to do such things as compensate victims of the system. This suggestion was not original with me even when I wrote the book; anyway I see no reason why this should not be done. Not only would it reimburse the victims, but it would render profitable many enterprises which are now losing money (the deficit being paid by increasing general taxation) because they are being operated by an inefficient and wasteful government.

Mr. Stumm further writes, "[Hospers] sounds like every bleeding heart liberal who is so eager to be charitable but always at someone else's expense." There is, of course, not a word in the article which provides the slightest basis for such an allegation. But if the best that can be said about the so-called liberals is that they place a value on human life, then fine, I accept that premise at least.

To receive a pro-libertarian letter from a professor of philosophy is indeed a refreshing experience. After years of constant rejoinders from philosophers such as "I suppose you wouldn't even agree that the government should license professions" (or care for the poor, or enforce anti-trust, etc.) I am so delighted at finding one philosopher who is skeptical of government that I would almost be tempted to grant him his whole case. Let me make clear, though, that if it is a matter of concern to me that a physician must sometimes inflict pain in order to heal a patient (and it is), it would be far more of a concern to me that a libertarian president would accept tax money even to eliminate coercion through the wise exercise of (and final abdication from?) his office. However, as indicated above, there is an alternative. The sale of government-owned enterprises, which the State should not have owned in the first place, would yield an enormous asset that could be used not only to repay innocent victims but to finance the president and Congress in dismantling the government's present coercive activities.

Professor Suits' analogy of the holes in the ship seems to me mistaken. The government's hand is indeed at the tiller, only it is steering the ship very badly. That will probably not be changed until someone steers the ship *well*. Carping on the sidelines won't succeed in doing this, at least not until enough people carp to elect a libertarian Congress, in which case they'll no longer be on the sidelines.

"Gradualism in theory, perpetuity in practice," writes Mr. Stumm. If there are interim measures, they will last forever, he says. This is a possible consequence, but a perfectly avoidable and unnecessary one. There is no rea-

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REASON'S COMMENT OF THE MONTH

The letter below, by subscriber Emmett S. Watson, appeared in the March 6, 1977 issue of the *Palm Beach (FL) Post-Times:*

HOW IS DRAFT DIFFERENT FROM SLAVERY?

Your editorial suggesting that a new draft include civilian as well as military service raises some larger questions.

How can you define any kind of draft to be different from slavery? If it is wrong for individuals to practice slavery how can it be right for a nation or a society to do so? What corporal or moral existence does a nation or a society have which is separate and larger than that of the people who comprise it? By what moral principle or by what magic of majority rule do some people have the right to enslave others?

History shows that people will naturally seek to defend themselves from true aggression. If they will not voluntarily serve their government perhaps that government's cause is unjustified, as we've seen from the Vietnam experience. If they will no longer defend their government perhaps that government should fall, as we saw in the final collapse of the Nazi and other regimes.

The truth is that any kind of conscription for any purpose is pure and simple slavery. Some people call for warrior slaves. Whose freedom do they expect slaves to fight for? You suggest public-servant slaves as well. Who is this mythical superbeing called "Society" who demands slaves as well as many other kinds of government coercion?

Emmett S. Watson
North Palm Beach, FL

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son in the world why an interim period should last forever; on the contrary, such a period should be as brief and painless as possible. But it cannot be overnight, any more than the recovery of a very sick patient can occur overnight. From the fact that he can't recover overnight, it does not follow that he has to stay in the hospital forever.

If there is *no* interim period, what would most likely happen? Starting tomorrow morning, no municipal police force, before private ones could be organized; no welfare payments, before private enterprise was able to get into gear to solve the unemployment problem; no social security payments or veterans benefits to those who depended on them for their existence. A portion of the most likely scenario would be: massive strikes, riots in the streets with no one to curb them, hunger riots and civil disorder, starvation in the cities, with such extensive terror and insecurity that a fascist-type government would probably take over to restore "law and order" and we'd be even worse off than before. I wish it were not so; but as an inhabitant of the real world and not some imaginary world contemplated by some libertarians, I must say that every evidence points to its being so. Not one of the letters received gives any evidence to the contrary; not one of them even touches upon this vitally important issue. A certain amount of gradualism (as short as possible) is the only alternative that takes any consideration of human life. Why has the opposition not addressed itself to this crucial issue? There are several possible answers, but the most plausible one that I can come up with is: They don't really give a damn what happens to actual human beings in the real world—this is of no concern to them as long as every detail of their theory remains intact.—**J. H.**

DEFENDING *DEFENDING . . .*

I was extremely pleased to read Sharon Presley's review of Walter Block's *Defending The Undefendable.* It is the most well-reasoned review on that controversial book that I have seen yet. Unfortunately, I cannot agree with her conclusion that "It is a positive menace to the libertarian movement . . ."

I agree strongly that the characterization of these undefendables as "heroes" was wrong. The mixed nature of the book does indeed weaken its total effect. And I am grateful that Ms. Presley so strongly criticizes the overwhelming reliance on economic arguments in the near vacuum of humanistic considerations.

But, given all of these faults, does the book really deserve such condemnation? I think not. So what if the book utilizes mostly economic arguments? Is not a defense of these people, using *any* argument, an important addition to the libertarian literature?

I regard this as an important point, because the emerging popular (liberal) opinion, particularly in regard to victimless crimes, is horribly inconsistent. How is it, for example, that we have strong popular support for personal users of marijuana, but almost no support for growers or distributors? And how can people push for the rights of prostitutes (including some prostitutes themselves, through groups such as COYOTE), while not defending pimps?

Of course many libertarians are revulsed by many of the activities discussed in Dr. Block's book. We cannot, as libertarians, attempt to defend or condemn any particular action, but we must defend the right for these activities to occur between consenting participants. Since *Defending The Undefendable* does this, I think it should be welcomed.

As to the argument that it will harm the libertarian movement, I find this a dangerous criticism. In dealing with non-libertarians, I have found my greatest success by consciously avoiding using the word libertarian, because it already has many bad connotations (as perceived by outsiders). If I used this personal belief to judge others, I would have to conclude that even REASON is a positive menace to the libertarian movement.

The libertarian spectrum is broad enough to encompass many "heretics." Should we attempt to silence Bob Lefevre or Karl Hess because they aren't in the mainstream of current thought? Rothbard himself was considered on a lunatic fringe a few years ago, and now he is "Mr. Lib-

ertarian."

If all the book does is evoke emotional responses, then it will have failed, but the fault will lie with the reader, not Dr. Block. If it causes even one person to think about the issues involved (and it has), then I consider it a success.

Paul Bilzi
Harrisburg, PA

DEFENDING ECONOMISM

In her review of Walter Block's *Defending the Undefendable* [February], Sharon Presley attacks not only the book but its endorsers, especially those indulging in the sin of "economism." Since practitioners of "economism" are presumably economists (what else?), and I am both an economist and an endorser of the book, I would like the space for a brief comment.

I do not propose to engage in a point-by-point defense of the Block book, which I have done at length elsewhere. But Miss Presley raises a wider issue in her review, of contrasting something she calls mechanistic "economism" and her own "humanism" as competing approaches for a libertarian.

In the first place, in lumping together alleged libertarian "economism" with the Marxist version, Miss Presley misunderstands the Marxist use of the term: it applies, not to the view that economics is all, but to a trade-union, bread-and-butter approach that ignores general ideological considerations.

More importantly, Miss Presley echoes other fuzzy-minded anti-economists of the past in misunderstanding the claims of economics and praxeological analysis. Economic logic and experience tell us, for example, that when the price offered for a product falls, the supply produced and offered on the market will be reduced. It tells us that investors and businessmen seek to increase their monetary profits and avoid monetary losses. It tells us, for example, in our current natural gas "shortage," that if, due to Federal price control, a Texas natural gas producer will be offered a *lower* price to ship gas to the East than he can attain on the free-market in his own state, precious little natural gas will be shipped. Are these truths simple or simplistic? Mechanistic? Whatever they are they are correct, and offer vitally important information about human action. In no case, does the economist claim that *all* of human action can be reduced to the monetary motive, but nevertheless these insights are both important and true, violate "humanism" through they may.

I must confess that I don't understand what Miss Presley and her like-minded confreres mean by "humanism." *Webster's* dictionary seems to provide little help: it offers, man-centered concerns as against religion, and devotion to the Greek and Latin classics, neither of which seem to be relevant. Does it mean that we should be nice to people, and avoid elbowing aside little old ladies in our rush for seats in the subway? If so, we can all agree without getting much further in social analysis. Does it mean William Graham Sumner's "friends of humanity," who adopt the "poor" and the "weak" as social pets, and proceed to push them and the rest of us around for their alleged "benefit?"

Who knows what Miss Presley and others mean by "humanism," since they employ it as an emotional catch-all term unsupported by rational analysis, with which to praise themselves and denounce views that they dislike? If this is being unfair to the humanists, then let one or more of them sit down and write a book expounding "libertarian humanism," and thus allow the rest of us to be convinced or not on rational grounds. So far, they have conspicuously failed to do so, and have, as in the case of Miss Presley, simply used the term as a bludgeon for a hit-and-run attack. As it is, I will have to rest with Sumner's brilliant defense of his exposition of economic law against those who accused his logic of being "cold" and "hard-hearted": Namely, that it is just as sensible to accuse the physicist for being "hard-hearted" for expounding a law of gravity that applies equally to a baby as it does to stones.

The one concrete case in which Miss Presley contrasts her humanism to Walter Block's analysis does not bode well. She is outraged that Block asserts that "the prostitute obviously prefers her work, otherwise she would not continue it." Far from being "out of touch with social reality" or being "mechanistic," Block is here asserting a praxeological truth which is founded on the insight that individuals are *not* behavior mechanisms, but persons with purposes and choices, who employ means to achieve ends. That means that *everyone*, not simply prostitutes, prefers their current actions to their alternatives. Miss Presley then proceeds to *de*humanize prostitutes by a psycho-smear, implying that they *are* determined mechanisms rather than free choosers. When she says that prostitutes choose their profession out of financial "desperation," this is another way of saying that everyone chooses his or her profession partly out of financial considerations. So? As for her charge that they do not choose their careers on the basis of "rational planning," whatever that may mean, then *who* does? How many psychologists, for example, choose their careers in the manner that Miss Presley would like?

At any rate, when it comes to the murky area of psychology, I rest my case with Thomas Szasz, another endorser of the Block book. For *there* at least, is one libertarian psychologist whose works I always find logical, rational, and crystal-clear.

Murray N. Rothbard
New York, NY

LIMITS OF LIBERTARIANISM

In her review Ms. Presley points out, quite correctly, the controversial nature of my book, *Defending the Undefendable.* I would go so far as to say that it is probably the most controversial libertarian book—ever written. She attributes this to its unevenness, "schizophrenic nature," "Dr. Jekyll-Mr. Hyde" aspects, which are based on "a fundamental division within lib-

(continued on page 79)

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QUICKIES

Who would expect to find Anita Bryant on the libertarian side of any issue? In January, Dade County, Florida, passed an ordinance that forbids discrimination in housing and employment "on the grounds of sexual preference." Translated from the liberalese, this gives gays the "right" to housing whether the owner wants to provide it or not (adieu private property), and the "right" to a job whether the employer wants to hire them or not (adieu private enterprise). That includes the "right" to a teaching job—not just in the public schools, mind, but in the private schools as well. This was too much for Ms. Bryant, who says, "Having worked with homosexuals in music all my life, I've always had a policy of live and let live. I'm not here to take away their civil rights as human beings. But I have civil rights too. And it seems that in their pressure they are taking away my rights and, if this ordinance stands, the civil rights of my children." Indeed. So she up and organized Save Our Children, Inc., which got some 60,000 signatures on a petition to force the Dade County commissioners to either repeal the law or put it to a referendum. The election is now scheduled for June 7. But it's pretty embarassing that the "gay rights" groups all favor the ordinance. Considering how noisy they were at the 1975 Libertarian Party convention, one might well ask: where are the gay libertarians?

* * *

Jerry who? According to the *Washington Star*, Rep. Paul Simon (D-IL) sent a letter to "The Hon. Gerald Ford" at his transition office but used the wrong zip code. It came back marked, "ADDRESSEE UNKNOWN."

* * *

"Kissinger, on the other hand, is being wooed by the BBC, which is offering him up to $1 million for doing an Alistair Cooke-type venture around the globe. ('I am standing in Angkor Wat, one of the great miracles of the world and a place I personally helped to destroy.')" That's Alexander Cockburn, writing in the *Village Voice*.

* * *

Surely you heard the uproar when the Congresscritters gave themselves that raise. Well Congresscritter Thomas Steed (D-OK) figures that it costs each of his subjects—beg pardon: constituents—only a nickel a year. So if anyone from his district complains, Steed will return the nickel—if the churl promises not to complain in the future. And why should he complain? Five cents will still buy a bullet.

* * *

When Leonard Woodcock and company went to Hanoi early in March to discuss American MIAs, the North Vietnamese gave them the remains of twelve Americans—or so they thought. Upon examination, one turned out to be Vietnamese, and Hanoi had given the wrong name for another. The reason for the mixup might be due to the fact that Hanoi's Van Diem cemetery, where the Americans had been buried, was bombed during the war. Incidentally Mr. Louis P. Kubicka of the American Friends Service Committee estimated in the *Los Angeles Times* that the North Vietnamese Army suffered 25,000 men missing in action.

* * *

It was good to see how many journalists supported Larry Flynt when he got sentenced to from seven to 25 years in prison for exercising his freedom of the press. But hark! It is that bulkward of liberty the *Wall Street Journal* intoning: "Americans for a Free Press [a pro-Flynt group] and the like argue the domino theory—if *Hustler* goes the *Wall Street Journal* may be next . . . . Anything of the sort seems terribly remote, to say the least, and for our part it is hard to avoid our sympathy with the citizens of Cincinatti in their desire for a cleaner environment." To which one member of AFFP, the veteran journalist and libertarian fellow-traveler Nicholas von Hoffman retorted: "No one is suggesting a domino theory that leads from the closing of *Hustler* to the closing of the *Wall Street Journal* for the simple reason that the *Journal* never has and never will publish anything displeasing to those who might have the power to shut it down." Von Hoffman, by the way, is now a columnist for *Penthouse*. *Journal* readers who desire a cleaner environment might follow him there.

* * *

The Rhodesian Assembly barely passed a bill to repeal the laws barring blacks from white hotels, bars, and restaurants, and to reduce the size of the areas where blacks cannot own land. One source says those areas will now total only one-half of one percent of all Rhodesia. This is to Rhodesia's credit, to be sure; but why didn't our right-wingers think to mention those restrictions when they were blathering about Rhodesian "free enterprise"?

* * *

Tass, the Soviet news agency, claims that in the last five years "98.4 percent" of those who sought to emigrate have been allowed to do so. One of the 1.6 percent is Amner Zavnrov, who had his internal passport confiscated when he applied for permission to emigrate, and then was sentenced to three years in prison for not having one. He was also charged with "hooliganism" because he didn't have a job—which he couldn't get without an internal passport.

* * *

Great Moments in Political Philosophy, No. 4: In a letter to *Business Week*, one E. I. Strom reveals that the Invisible Hand is attached to the long arm of the Kremlin: "It is more than a hundred years since Karl Marx said: 'The protective system is conservative and the free trade system is destructive. Therefore, I am for free trade, because it will hasten the day of the social revolution.' I believe that anybody who promotes free trade must be considered a fellow traveler of Karl Marx." (March 28, 1977.)

Bill Birmingham

"The real tax burden on the American people is the amount the government spends, not the amount that it labels 'taxes.' If the Federal government spends $460 billion in fiscal year 1978, which is roughly what the President proposes, and takes in something like $400 billion in taxes, who do you suppose pays the other $60 billion? The tooth fairy? . . . the Arab sheiks?"

—Milton Friedman

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"The insiders, the smart money, buy at the bottom of a coin cycle and they have the cards to deal to those who follow at increasingly inflated prices as the series or issue comes under increasingly short supply." —*Coin World, July 7, 1976, page 71*

"Full of unusual ideas—something for everyone, from collector to investor to experienced dealer." —*Lee Martin, Coinage Magazine, Encino, CA*

"The cyclical nature of the coin market is discussed and methods of using those cycles to turn a profit are revealed. Another chapter deals with using the teletype for trading in the numismatic marketplace. In all, more than 200 specific recommendations are made on which coins to purchase and what to look for and what to avoid. Up front the author differentiates between the coin collector and the coin investor, between coin speculation and gambling. Delving into the investment market, specialization, diversification, and timing of purchases and sales are discussed. This book deals with a specific audience. The investor/speculator who wishes to learn new techniques which will give a big boost to profits and success. It is specifically designed to be a guidebook for a sophisticated speculator who wants to make money in coin commitments. This book starts where many others leave off." —*Numismatic News, Aug. 14, 1976, Iola, WI.*

"Kamin is more interested in timing, avoiding low-potential coin investments and conserving one's funds. As an economist he leans toward underlying principles, rules and analytical systems. The author points out a wide variety of opportunities in every type of coinage (primarily U.S.) and offers literally thousands of useful tips and warnings. Kamin recognizes that whatever goes up can come down—tells of a dealer who lost $67,000 on a prize 1794 silver dollar in less than 6 months. . . . Here's a good piece of advice from John Kamin: consider doing the opposite of the crowd. John Kamin knows what's going on in the complex coin market. It is no place for amateurs . . . and (he) offer(s) a wealth of professional advice . . . excellent." —*Coin Report, New York, August 1976*

"Kamin is well noted for his financial and numismatic columns in publications interested in money." —*Coin World, June 16, 1976*

"Purpose of this book is to explore, identify and reveal new techniques, new ideas for profitable coin speculation. This book starts where others leave off. The major emphasis of the work is not just making money with coin investments, but making it fast. It is assumed the reader has read other books, has some knowledge and interest in coins for collection and speculation. Kamin's thesis is that coin prices move in cycles, the astute investor will buy low and sell high. He buys when the market bottoms out and sells his acquisitions when they are hot. Kamin explains . . . best grades. Kamin recommends specialization. He explains grading, storing and preserving acquisitions. Explains coin price cycles. The investor/speculator needs goals and must plan his strategy to fulfill those goals, Kamin says. The investor must buy with his eye to the future—and the future resale value of his acquisitions—to maximize profit. Kamin does not recommend purchasing anything as recent as 10 years old in general." —*Canadian Coin News, Aug. 16, 1976*

"California economist John Kamin of Tarzana has revealed the wierd, fascinating slang of money language to reporters in a press interview. In a behind-the-scenes look Kamin demonstrated how money terms creep into the language of professionals and citizens. He became so fascinated with economics and the science of money he began publishing on rare coins. After his university postgraduate work in economics he became fascinated enough to delve ever deeper. The author turned the dull science of economics into the slanguage of money and claims to have singlehandedly converted thousands of people into coin collectors from other hobbies." —*The Chronicle, August 19, 1976, page 15.*

"Economist John Kamin of Tarzana . . . felt so strongly about coins being the best of hobbies he has just written a brand new book on the subject. Author Kamin stated that coins were best and challenged other hobbyists to comparisons." —*Coin World, Sept. 1st, 1976*

WHAT PROFESSIONALS SAY!

"The book will pay for itself chapter by chapter. In fact, any one chapter can more than pay for the entire book." —*Bowers & Ruddy Rare Coin Galleries, Hollywood, CA.*

"We have read John Kamin's new book and feel that anyone that does not read it is the loser. We feel so strongly about this book that we recommend it to all. You owe it to yourself to order this book, read it, and make sure your clients hear of it. It is a masterpiece. Cheap for the money and want to thank John for sharing his knowledge. Suggest you buy it." —*Harry J. Forman, Professional Numismatist and Author, Philadelphia, Pa.*

"After more than twenty years in the business, I found things in this book of which I was not aware. Helpful items. It's a very good book, one everyone in coins should read." —*Professional Numismatist Joel Rettew, Rare Coin Galleries, Beverly Hills, CA.*

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"It's an ideal book . . . perfect for me. It's the kind of book I've always been looking for . . . but wasn't available. I'd have to recommend it to my friends." —*Joe Jones, Ad. Mgr., Krause Publications, Iola, WI.*

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"We recommend the following book: **How To Make Money In Rare Coins** by Kamin." —*Ivy Financial Corp., Steve Ivy & Leonard Saunders, Dallas, Tex.*

"Get more out of a hobby—get your copy of **How To Make Money In Coins.** Full of ideas, any one of which can repay your investment many times over." —*Philson's Consolidated Industries, Hicksville, N.Y.*

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TRENDS

NUCLEAR SUBSIDY OVERTURNED

The special interest legislation by which the Federal government subsidizes the insurance of nuclear power plants has been overturned by a U.S. District Court in North Carolina. Judge James B. McMillan ruled that the Price-Anderson Act is an "unconstitutional deprivation of property without due process of law." The Act, first passed in 1957 at the behest of insurance companies and the power industry, limits the liability for any nuclear accident to $625 million, regardless of the actual extent of the damages. It further provides that the Federal government (i.e., the taxpayers) pays the majority of these damages, with the insurance companies paying only a fraction (currently $125 million).

The irresponsibility of the law was clearly identified by Judge McMillan: "The act violates the equal protection provisions... of the Fifth Amendment because it provides for what Congress deemed to be a benefit to the whole society (the encouragement of the generation of nuclear power) but places the cost of that benefit on an arbitrarily chosen segment of society, those injured by nuclear catastrophe." Further, he said, the act "irrationally and unreasonably places a greater burden upon people damaged by nuclear accident than upon people damaged by other types of accidents, such as motor vehicle or electrical accidents, involving power companies."

Nuclear power advocates have long maintained that even though the odds of a nuclear catastrophe are extremely small, insurance companies could not afford to take the chance and would refuse to insure the plants in the absence of the act. Nonsense, said Judge McMillan. He suggested that the power companies establish a liability pool to spread the cost of any disaster among all operators of nuclear power plants—a solution that strikes us as quite reasonable. There is simply no justification for forcing the taxpayers to subsidize power plant insurance, or for short-changing the victims of a disaster—no matter how remote its likelihood.

SOURCE:

- "Nuclear Mishap Liability Limit Struck Down," *Los Angeles Times,* April 1, 1977.

MARIJUANA PROHIBITION ON THE WAY OUT

During his campaign for the presidency Jimmy Carter pledged an end to the Federal prohibition on use of marijuana. Present Federal law calls for a $5000 fine and up to a year in jail for first-time simple possession, with the penalties doubled for a second offense. These penalties remain on the books, despite a 1972 presidential commission recommendation to decriminalize the substance, subsequent decriminalization in eight states, and a de-facto end to Federal enforcement efforts, other than those against dealers.

But the end of the prohibition appears to be in sight. In its annual report to Congress on marijuana and health, HEW announced that marijuana use has joined that of other common drugs such as alcohol, tobacco, and caffeine as "part of the national lifestyle." The HEW report went on to say that marijuana use "is more than a fad and may well prove to be an enduring cultural pattern in the United States." HEW also noted that most of the widely publicized fears about possible adverse medical effects of the drug remain unproved. The recognized physical effects are limited to temporarily reduced psychomotor coordination (as with alcohol) and possible long-term lung damage (as with tobacco).

About the same time as HEW's report was released, the results of another study became public. This one, conducted by the Law Enforcement Assistance Administration for the National Governors Conference, analyzed the extent of marijuana use in the states that have so far decriminalized it. In Oregon, the first state, there was no increase in use during the first two years, and only a small increase the third year. Hard data from the other seven states were not available, but the "judgment of knowledgeable officials" indicated no substantial increase in usage in those states, either. In addition, there was no evidence of an influx of users from other states into the eight decriminalized states.

A week later, the Carter Administration formally asked Congress to repeal the Federal penalties. The Administration's position was advanced by Dr. Peter Bourne, head of the Office of Drug Abuse. Bourne played a key role in drafting the National Governors Conference report on marijuana. (He also stated that the Administration is "carefully reexamining the Federal prohibition on cocaine.) Bourne's testimony to the House Select Committee on Narcotics Abuse and Control was strongly endorsed by Gary, Indiana Mayor Richard G. Hatcher, speaking for the 15,000-member National League of Cities. The League had previously gone on record supporting decriminalization of marijuana. Others testifying in support of repeal were Reps. Jacop Javits and Edward Koch (who have introduced bills to that effect), Rep. Yvonne Burke, the Playboy Foundation, and the National Organization for Reform of Marijuana Laws.

Decriminalization is also contained in the latest version of the proposed revision of the Federal criminal code, Senate Bill 1. The new bill, cosponsored by Sen. Ted Kennedy, drops all penalties for possession of up to 10 grams of marijuana.

SOURCES,

- "HEW Report Says Marijuana Now Part of National Lifestyle," UPI (Washington), March 10, 1977.
- "Marijuana Use Doesn't Rise with Passage of Decriminalization, Study Finds," *Los Angeles Times,* March 9, 1977.
- "Carter Aide Asks Congress to Decriminalize Marijuana," *Ibid.,* March 15, 1977.
- "Three Lawmakers Back Carter Marijuana Plan," *Ibid.,* March 16, 1977.
- "The Remaking of S-1," *Time,* April 4, 1977.

ISLAND SECESSIONISTS

Massachusetts, birthplace of American secession from Great Britain, has given birth to another secession movement. Officials of the island resorts of Nantucket and Martha's Vineyard have signed a joint declaration of independence from Massachusetts and filed a secession bill in the state legislature. State Rep. Terrence McCarthy said the islands intend to form their own country or state, or join another state. Offers of annexation have already been made by officials of Connecticut, Rhode Island, Vermont, and New Hampshire.

The secession movement has arisen out of the state's new legislative redistricting plan. In reducing the legislature from 240 to 160 members and complying with one-person, one-vote rules, the plan requires each district to have about 33,000 residents. The combined population of the two islands, each of which now has its own representative, is only 11,000. Thus, the redistricting would force both islands into a single, much larger district with a single representative. "The only ef-

fective advocate for the islands is an islander," says Rep. McCarthy. "If the commonwealth persists in its plan to thrust arbitrary government upon us . . . we are prepared to withdraw our consent of its continued authority over us, and dissolve all connection with it."

On April 4 residents of Nantucket voted four to one in favor of secession. On Martha's Vineyard, the first two towns to hold town meetings on the issue also supported secession. The latter island's other towns will hold individual town meetings through mid-May, but the outcome appears to be overwhelming support for the breakaway.

SOURCES:
- "Massachusetts Islands Secede," UPI (Boston), March 23, 1977.
- "Islanders Peeved Enough to Secede," UPI (Chilmark), April 4, 1977.
- "Massachusetts Islanders Back Secession," *Los Angeles Times,* April 5, 1977.

COSTLY REGULATIONS

The economic impact of Federal regulations has long been a matter of concern to those being regulated—which today means nearly every business in the country. But until very recently almost no one in Washington gave much thought to whether their regulations might do more harm than good. That situation seems to be slowly changing.

Last year the Council on Wage and Price Stability (COWPS) began requiring "inflation impact statements" on new regulations issued by *executive* agencies (e.g. OSHA, NHTSA, FDA, but not independent agencies like the FTC, EPA, or CAB) that could entail costs of more than $100 million. But the requirement has had little effect because the impact statements are published *after* the regulations have appeared in the *Federal Register* and COWPS has no authority to block them if they do appear to cost more than their benefits.

The Carter Administration is now considering a substantially stronger version of this idea. Under this plan, each executive agency would have to prepare a detailed economic impact statement and submit it to the White House Economic Policy Group two months *before* publication of the proposed regulation in the *Federal Register.* The EPG, whose membership includes the Secretaries of Treasury, Commerce, Labor, and State as well as the director of the Office of Management and Budget and the Chairman of the Council of Economic Advisors, would have substantial clout to recommend against adoption of regulations with adverse cost-benefit ratios.

Not to be outdone, the independent FTC is beginning to conduct impact evaluations on some of its regulations already in effect. The first such study will evaluate what has actually taken place in response to its 1971 rule requiring retailers to stock large quantities of sale-advertised items. There are indications that the rule has raised stores' administrative and inventory costs, reduced both the size of price markdowns and the number of bargain sales, and benefitted suburbanites at the expense of inner city dwellers. FTC commissioner David Clanton predicts that such impact analyses will become an increasingly important element in the agency's rule-making procedures.

They will have to, if Congressman William Moorhead has his way. Moorhead has introduced a bill to require economic impact statements on proposed regulations from *all* government agencies, both executive and independent. The bill would require COWPS to conduct the analysis while the proposed rule was being drafted, and require the analysis to be published in the *Federal Register* along with the proposed rule and the agency's own impact statement.

While not the solution to the problem of government regulation (which is to abolish the agencies), tough requirements for economic impact analyses could be a valuable weapon in curbing the agencies' heretofore unstoppable growth.

SOURCES:
- "A Cost Criterion for the Regulators," *Business Week,* March 14, 1977, p. 36.
- "The FTC Reviews Its Own Consumer Rules," *Ibid.,* March 28, 1977, p. 92.

NEW MEDIA FREEDOM

Federal courts in two separate cases have rejected FCC restrictions on radio and TV programs. In the first case, the U.S. Circuit Court in Washington, DC overturned an FCC order that had banned George Carlin's "Seven Words You Can't Say on TV" from being broadcast over the radio during hours when children might be listening. Two of the court's three judges voted to overturn the ban, one arguing flatly that it violated the First Amendment and the other merely stating that it was too broad and carried the FCC into the "forbidden realm of censorship." The latter noted that the FCC's rule could have been used to prohibit broadcasting of the Nixon White House tapes, Shakespeare's plays, and the Bible. He also pointed out that if communities don't like the use of such language on a particular station, they have ways of making their distaste known, through public protest.

The other ruling concerned pay cable TV. Some years ago, the FCC, reacting to pressure from broadcasters, prohibited pay cable operators from presenting a wide variety of programs: feature films more than three but less than 10 years old, the World Series and football bowl games, regular season sports, and all series programs. Unfair, ruled the U.S. Court of Appeals in Washington, DC. The FCC has "indulged in speculation and innuendo" about the supposed threat of "siphoning" by pay cable operators. By issuing its prohibition the agency "has not put itself into a position to know whether the alleged siphoning phenomenon is a real or merely a fanciful threat to those not served by cable," the court ruled. Although it leaves the door open to possible future regulation, the court's decision for the present clears the way for expansion of the promising pay cable industry.

SOURCES:
- "Panel Sets Aside FCC 'Censorship,'" *Washington Post,* March 17, 1977.
- "Court Rejects U.S. Curbs on Pay-by-the-Program TV," AP (Washington), March 26, 1977.

PADDED UNEMPLOYMENT RATES

Two University of Miami economists have discovered that millions of Americans became unemployment statistics for the sole reason that they applied for food stamps or other welfare benefits. The fact that qualifying for financial assistance under many government programs now requires registration for work has resulted in inflating the official unemployment figures, according to Drs. Kenneth W. Clarkson and Roger E. Meiners.

In a study published by the University's Law and Economics Center, they show that the inclusion of individuals who would not previously have been considered unemployed has had the effect of padding the unemployment rate over the past several years by approximately *two and one-half percentage points.* Their study shows that in 1976, when unemployment was officially measured at 7.7 percent, the actual unemployment rate under traditional standards was approximately 5.3 percent.

"The observation that reported unemployment has been at levels unprecedented in post-war history is the result of several factors," they say, "including the change in the magni-

tude and duration of payments of unemployment compensation, higher levels of transfer payments for welfare programs, higher values of in-kind transfers, changes in the composition of the labor force, changes in the value of spending time searching for jobs, modifications in manpower programs, and changes in the definition of unemployed persons. Although each of these factors contributes to the persisting high levels of measured unemployment, our preliminary findings indicate that the single most important factor is the change in certain welfare eligibility requirements. These requirements result in the inclusion of many individuals in the ranks of the unemployed who do not fit the traditional definition of unemployed persons."

Dr. Henry G. Manne, director of the Center, explained that the curiosity of the two economists had been piqued by the fact that reported rates of unemployment have recently been almost double the historical pattern during periods of high employment, and by their discovery that eligibility rules for food stamps, Aid to Families with Dependent Children and other programs of lesser significance had been changed in the 1970's to require registration for work. Several months ago, he said, they began probing deeply into the wealth of employment data collected by the U.S. Census Bureau, traced changes in welfare program eligibility rules, and developed a computer program to aid in analyzing upsurges in official unemployment statistics resulting from the introduction of work registration requirements.

Drs. Clarkson and Meiners estimate that the food stamp program alone inflated the officially-counted number of unemployed by more than a million persons last year. "There is, in fact, a permanent increase in the number of individuals included in the unemployment statistics that represents a new class of individuals who are not seeking work. Prior to the introduction of work registration requirements . . . these individuals would not have entered into the measured unemployment statistics. Since the unemployment rate is often used as a basis for policy decisions, it is important to distinguish between the effects due to the new institutional requirements and those attributable to the more traditional reasons for identifying individuals as unemployed."

SOURCE:

- "Inflated Unemployment Statistics: The Effects of Work Registration Requirements," Kenneth W. Clarkson and Roger E. Meiners, Law and Economics Center, University of Miami, March 1977 (P.O. Box 248000, Coral Gables, FL 33124).

SHOE TARIFFS REJECTED

In an important victory for consumers and free trade, the Carter Administration has rejected pleas from shoe manufacturers for higher tariffs on imported shoes. The tariffs would have increased the costs of imported shoes—mostly from Taiwan, Korea, Brazil, Spain, and Italy—by $200-300 million per year, and had been recommended by the government's International Trade Commission. In announcing the decision Carter said he was "very reluctant to restrict international trade in any way."

Unfortunately, Carter's alternative to raising tariffs appears to be an alternate form of restricting international trade. He has ordered his special trade representative, Robert Strauss, to negotiate a "voluntary" limit on imports with each of the offending governments. Strauss has already begun talks with officials of Korea and Taiwan, publicly stating that "There has to be a rollback from 1976 levels." Whether the Strauss/Carter gambit will be just a symbolic gesture to the domestic shoe industry or a substantial new restriction on trade remains to be seen.

SOURCE:

- "Carter Rejects Higher Tariffs on Imported Shoes," *Los Angeles Times,* April 2, 1977.

SACCHARIN BACKLASH

The FDA's proposed ban on saccharin has stirred up the strongest antigovernment protest in recent years. HEW Secretary Califano reports receiving 600-800 letters per day on the issue, more than HEW "has ever gotten on any other issue." An FDA spokesman said he'd never seen anything like the deluge of phone calls the agency was receiving. The industry-sponsored Calorie Control Council, Inc. took out full-page ads in major newspapers attacking the ban as "just another example of the arbitrary nature of big government." Both the *New York Times* and the *Los Angeles Times* editorialized against the ban, calling for replacement of the Delaney Amendment under which the FDA was required to act.

Dr. Irving Kessler, professor of epidemiology at Johns Hopkins, called the Delaney law "illogical" and pointed to his own controlled studies of the bladders of over 1000 human users of artificial sweeteners. They showed "no evidence that saccharin or cyclamates cause bladder cancer in people." The president of the American Cancer Society, Dr. Lee Clark, stated that the harm caused to diabetics and the obese by the saccharin ban would be worse than the "possible carcinogenity of saccharin." The ban "may cause great harm to many citizens while protecting a theoretical few," he said.

As sales of saccharin products boomed, the president of the firm that makes Sweet n' Low announced that he had commissioned a laboratory to conduct tests on the carcinogenic potential of salt, pepper, and sugar. "In the case of pepper, I am told there's a fairly good prospect that used in sufficiently enormous amounts it will cause cancer in rats," he said. "If this turns out to be true, I will demand that the FDA ban pepper," which it must do under the Delaney law.

Legislative reaction was swift and strong. Sen. S. I. Hayakawa introduced a bill to legalize saccharin. So did Rep. Andrew Jacobs, whose bill provided for a cautionary label reading, "Warning: The Canadians have determined that saccharin is dangerous to your rat's health." Rep. James G. Martin introduced a bill to modify the Delaney law to authorize the HEW secretary to decide if the benefits of a product outweigh the risk of its causing cancer. Former FDA commissioner Herbert Ley (who lost his job seven years ago over the cyclamate controversy) predicted that Congress would revise the Delaney law in a matter of months.

When the dust settles, the FDA's power will likely remain intact, though its credibility has been seriously damaged. The Delaney Amendment will probably not be repealed, as it should be, but at least will be made less rigid. The great saccharin flap of 1977 illustrates once more the idiotic lengths to which the State will go to save us from ourselves.

SOURCES:

- "Ban on Saccharin Opposed by Public," AP (Washington), March 30, 1977.
- "Ex-FDA Chief Expects OK for Saccharin or Substitute," *Los Angeles Times,* March 17, 1977.
- "The Ban on Saccharin: How? Why?," *Ibid.,* March 20, 1977.
- "U.S. Food Ban Law 'Illogical,' Expert Says," UPI (Baltimore), March 13, 1977.
- "Diet Soft Drinks May Gain Calories in Saccharin Ban," *Los Angeles Times,* March 11, 1977.

POSTAL MONOPOLY CHALLENGED

The government's monopoly on first class mail delivery is being challenged in New York and Kansas. In both states, private entrepreneurs are attacking the constitutionality of the private express statutes, which grant

this monopoly. The Kansas case involves Robert Black, a businessman from Pittsburg, Kansas, whose Alternate Systems, Inc. has been delivering mail for over a year (see Spotlight, Sept. 1976). Black was hauled into court by the Postal Service last year, and the U.S. District Court ruled against his contention that the private express statutes exceed the proper power of Congress and deny rights retained by the people. Black's attorney has appealed and the case is now before the U.S. Court of Appeals for the 10th Circuit.

The second case involves the Brennan Hand Delivery Co. of Rochester, NY (see Trends, Dec. 1976). The Postal Service in February filed a civil complaint against the Brennans, charging violation of the private express statutes. Mrs. Brennan has responded, like Black, on constitutional grounds. "When the Founding Fathers drafted the Constitution, they had no intention of giving anybody a monopoly," she told the *New York Times*. Their case was filed in U.S. District Court in March. Meanwhile, the company is still delivering letters in Rochester.

SOURCES:

- "Brief of Appellants-Defendants, U.S.A. vs. Robert E. Black and Alternate Systems, Inc.," March 1977.
- "Postal Service Files Suit Against Upstate Couple that Runs Mail Service," *New York Times*, Feb. 27, 1977.

NLRB SUPERFLUOUS?

The premise that union representation elections can only be fair if closely supervised by the National Labor Relations Board has been an article of faith since the agency was established in 1935. That premise has now been seriously questioned in a pathbreaking study of how those elections actually work.

Three labor/management scholars interviewed 1300 workers who voted in 37 NLRB elections from 1968 to 1973. Their intent was to determine why workers voted for or against the union and how frequently they changed sides during the campaign. Their findings were surprising: only 13 percent of the workers switched sides during the 45-day (average) campaign period, despite vigorous persuasive efforts by both company and union. Yet NLRB regulation and supervision "rests on the assumption that the pre-campaign intent of most employees is tenuous and easily changed by the campaign," says Prof. Julius Getman, one of the researchers. Since this does not appear to be the case, the argument for NLRB participation is largely without foundation. Indeed, says Getman, "The only people who profit from the present system are labor lawyers."

Chalk up one more empirical case against a useless government agency.

SOURCES:

- "Do Representation Elections Need the NLRB?" *Business Week*, March 21, 1977, p. 54.
- *Union Representation Elections: Law and Reality*, Julius G. Getman, Stephen B. Goldberg, and Jeanne B. Herman, Russell Sage Foundation, 1977.

MILESTONES

- *Software Tax Axed.* The State of Florida's attempt to tax computer software as tangible personal property has been struck down by the state's Division of Administrative Hearings. The Division ruled that the consequential element in the sale of software is *data*, which is defined as intangible property and therefore not taxable. The case was brought by Nova Computing Services, Inc., from which the state had attempted to collect some $26,000 in back taxes. Many states have been taxing software as tangible personal property, even though Federal law considers such property intangible, as is now the case in Florida. (Source: "Florida Kills Tax on Software," *Computerworld*, Jan. 17, 1977.)

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YOU CAN PROFIT FROM THE CARTER ERA

John Dublin

There are two appropriate reactions to Jimmy Carter's decisions in office. One is to sit down and cry. The other is to accept the State's expanding intrusion into private affairs and determine whether and what profitable opportunities will arise.

It appears that the increasing intervention in economic activities has changed the economy from a positive sum game into a zero sum game. And soon, like Britain and Italy, it may change into a negative sum game—total wealth in the United States will not grow or will even decline. Nevertheless, private property has not yet been abolished; profits, while taxed, still exist; and thus, while the wealth of the society as a whole may decline, certain individuals may prosper.

Eric Hoffer has proposed that the United States will have socialism without socialists. Jimmy Carter is a man in this tradition. Identifying himself as a common man and small businessman, he has to date made uniformly interventionist decisions. The winter shows his gut reactions to any circumstances out of the ordinary: for the government to intervene, to allocate, to control, to punish. His inclination is to allocate supply by fiat, rather than by price. His reaction to a higher demand for energy is to pass laws preventing certain consumption—by force. His first decisions on changes in the tax laws have been to substitute tax credits for exemptions, thus lowering the taxes of those whose income is below $16,000 and raising taxes of those whose income exceeds $16,000.

In both fiscal and monetary policy, Jimmy Carter comes across as a pure neo-Keynesian. He has increased expenditures and cut taxes—to "stimulate" the economy—increasing the budget deficit by approximately $30 billion, although during his campaign he promised to balance the budget, even criticizing Ford for the size of the Federal deficits under Ford's tenure. In addition, Mr. Carter and his advisors have repeatedly admonished Arthur Burns, president of the Federal Reserve Board, to increase the money supply more rapidly. Congress, in hearings, is already altering Carter's $30 billion proposal in the direction of even higher expenditures for Federal and state make-work jobs. It is extremely doubtful that Carter would veto this. So we can expect deficits at least as enormous as, and probably higher than, those under Ford, and a money supply increasing much more rapidly. Sooner or later, we will have an accelerating rate of inflation.

In addition, Carter's advisors have called for lower interest rates. They expect lower rates to result from an increase in the money supply, a classical Keynesian hypothesis based on the presumption that lenders are stupid and will fail to understand that inflation will reduce the buying power of the money they lend. Indeed, the last spate of rapid inflation showed interest rates skyrocketing, in 1973 and 1974, coming down only when the rate of increase in the money supply declined. Nevertheless, Carter and his advisors clearly believe in the Keynesian-leftist orthodoxy. The result can well be controls on interest rates in the future. Since Carter's assumption of power, both interest rates and the rate of increase of the Consumer Price Index have risen rapidly.

Lastly, Carter has peppered the regulatory agencies with several Naderites, including those who advocate wage and price controls, far greater use of antitrust legislation, and stronger

regulations of safety, environment, advertising, and other aspects of capitalist transactions between consenting adults.

This article will not discuss buying silver, gold, and Swiss francs, all of which will be duly covered by other authors.

There are numerous methods of investing in interest rates when they are expected to increase. One, of course, is to borrow money now. If you have a productive use to which to put money or you are expecting to borrow money for consumption, it is better to do it now than to do it later, since interest rates will rise. Indeed, it is intelligent to be a borrower rather than a lender.

A more speculative method of investing in the expectation of rising interest rates is to short Treasury Bill futures. Interest rates on 90-day Treasury Bills reached bottom on December 22, 1976, at 4.28 percent. Since then they have carried higher rates—about 4.65 percent currently. The Treasury Bill futures market specifies delivery of 13-week Treasury Bills with a face value of $1 million. Trading occurs in four delivery months: March, June, September, and December; and for each delivery month, trading begins one year in advance. If you wished to buy Treasury Bills for delivery in June 1978, they would be available any time after June 1977. Treasury Bill futures are traded on the International Monetary Market of the Chicago Mercantile Exchange, and a contract can be bought through any commodity broker. As with all futures contracts, Treasury Bill contracts can be secured on margin, which currently, depending on the brokerage firm, runs about $1,500. You can secure $1 million worth of 90-day T Bills for $1,500.

Treasury Bills are quoted at 100 minus the interest rate. If the current interest rate for T Bills is five percent, then they will be quoted at 95. If the interest rate increases, the price falls. An increase from five to six percent would cause the price to fall from 95 to 94. Similarly, a decrease in the interest rate on T Bills from five to four percent would be evidenced in the quote rising from 95 to 96.

Speculators bid on the interest rates of T Bills for future delivery depending on what they expect T Bills will be carrying at the time of delivery. If they expect that interest rates will rise over time, distant deliveries of T Bills will be quoted at lower prices (higher interest rates) than nearby deliveries. This is exactly what *is* expected. As of February 11, 1977, for example, T Bills for March delivery were quoted at 95.24 (4.76 percent), while T Bills for December delivery were quoted at 93.70 (6.30 percent).

In January and the first week of February, price quotes for T Bill futures dropped considerably, before rallying in the later part of the month. What kind of interest rates can be expected in T Bills over the next year? This is impossible to know for sure, but there are some indicators. T Bill rates reached as high as 10 percent during the height of the 1974 inflation. As late as May 1976 T Bill futures were quoted as low as 90.5, giving an interest rate of 9.5 percent. Prices now are about as high as they have been since 1972, for nearby deliveries, and only moderate for distant deliveries.

The latest version of the Carter 1977-78 budget predicts a deficit of about $62 billion but is admittedly optimistic on the revenue side. Congress is already expanding the spending side. Other bills will be passed without a Carter veto, the final deficit being sent upward. A good guess would be at least $70 billion. In January, housing starts fell 27 percent—the economy is not strong.

It is probably very conservative to expect the inflation rate to rise three or four percent over the next year.

It is probably very conservative to expect the inflation rate to rise 3 or 4 percent over the next year, to 10 or 11 percent. If this is the case, T Bills will yield at least 8 percent, perhaps as much as 9 percent. If the inflation rate rises even a percent or two higher than this, T Bills will yield over 10 percent.

Thus a short position in the T Bill futures market would be indicated, for those who find this senario reasonable and who have money, and the inclination, to speculate. If one shorted a distant T Bill contract at 94, and liquidated at 92, the profit would be $5,000. (Yields in the T Bill futures market are calculated by the change in the interest rate divided by four, since they are 90-day T Bills. A two percent increase in the interest rate on a 90-day T Bill contract for $1 million face value of T Bills is equal to .02 x 1,000,000 x 1/4 = $5,000. Each percent increase is worth $2,500, so each 1/100 percent—the minimum quote change—is worth $25.00.)

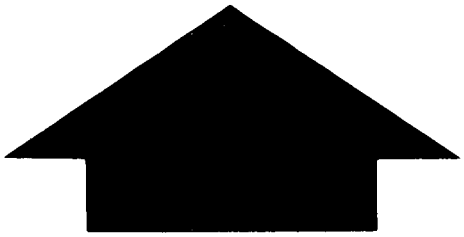
If the interest rate were to climb to 10 percent, the profit would be $10,000, on a margin of $1,500 per contract. Thus a very large profit potential exists if Carter continues with the policies thus far implemented and if their consequence is the same as they always have been.

Most climatologists predict that the recent frigid winter will now be commonplace. It was caused by a severe shift in the jet stream, which in turn is influenced by sunspot activity and the earth's precession in its orbit. An American Association for the Advancement of Science panel on climate said flatly that seven such winters in a row would lift the albedo (the amount of light reflected rather than absorbed) of the earth so high that we would be in a new ice age. Lowell Ponte, in his book *The Cooling,* carefully analyzes all the climatic evidence and theories and concludes that the world is definitely cooling rapidly, with the chances of another ice age rather high. Recent evidence indicates that when a cooling climate comes, it happens very rapidly. Indeed, at the beginning of February 1977, 65 percent of the North American continent was covered with snow, the most recorded.

This winter Carter showed his response to the natural gas shortage caused by the cold climate. All State intervention. State allocations of natural gas. Threats of arresting individual homeowners if their thermostats were set "too" high. State allocating of heating and fuel oil. If the next winter is as cold as this, the catastrophe will be much worse, as inventories have been brought down and allocations of some substances destined for summer use have already been consumed. Next winter some actions are almost certain: gasoline rationing, heating and fuel oil rationing, price control and allocations at the refinery level of almost all petrochemical production. These are the same actions that provided misery to the American people in 1973 and 1974—but also provided enormous speculative opportunity to a few.

Heating oil can now be purchased for about 49 cents per gallon. During the 1973-74 embargo-allocation, the price rose, on the black market, to over $4 per gallon. Benzene, selling at 50 cents per gallon, also rose to $4.

(continued on page 35)



HERE COMES HYPERINFLATION!

Jerome F. Smith

We have today a monetary world without precedent.

Never before in the history of the modern world has runaway inflation occurred on a global basis. Importantly—prior to the present generation, monetary inflations have always been on a nation-by-nation basis, with runaway inflation occurring perhaps in one, two, three, or four nations simultaneously. And never before in history has it occurred on a coordinated basis where there was one kingpin fiat currency that tied it all together in an accelerating and irreversible trend toward a simultaneous, worldwide hyperinflation.

Two underlying and ongoing developments of the past decade require this terminal result within the next decade. The first is the rampant growth of statism, in the guise of welfarism, in the Western nation-states—especially in the United States. The second development is the transition of the U.S. dollar from a metallic-backed, redeemable currency to an irredeemable fiat paper nothing.

It takes a very long time to establish a good currency—to get it widely accepted as money— and relatively little time to ruin it, then even less time to destroy it. Any adult reading this can remember when real money—silver, and silver certificates redeemable one-for-one for silver—still circulated in North America. We remember when the dollar was as "good as gold," internationally, at least. We remember when the dollar was money.

Since silver certificates were repudiated in 1968, there has been no money circulating domestically in North America. Since the Nixon declaration of international dollar default in 1971, there has been no money circulating internationally. With these changes, the U.S. dollar and other national currencies have become counterfeit.

Genuine paper money *has* the value of the money it represents *because* it is redeemable; counterfeit money does not have the value that it purports to represent because it cannot be redeemed or converted. Its only value is its value as scrap paper; it actually is not even worth what it cost the counterfeiter to produce it.

Counterfeit paper money comes into existence in two ways: (1) fraudulent issue, (2) fradulent removal of the actual money backing the paper money after the paper money is issued. All of the national currencies in circulation as of August 16, 1971, became counterfeit monies of the second sort while all national currency notes issued since that time are counterfeit notes of the first sort. The important fact, regardless of the date of issue, is that all national paper currencies today are 100 percent counterfeit, 100 percent inconvertible, 100 percent fiat money and, as recognition of their fraudulent natures and actual valuelessness sinks into the public awareness, their exchange value in the marketplace will sink, erratically to be sure, to, or very near to, zero.

Conventional, empirically derived monetary and business-cycle theory is not broad enough to encompass the

world monetary situation and it cannot accurately anticipate the future because the situation today is unprecedented.

There are no historical precedents for:

(a) *Global fiat national currencies*—all national currencies in the world being irredeemable fiat paper (*de facto* since 1968; *de jure* since 1971).

(b) *Global accelerating inflation*—virtually all national currencies being simultaneously inflated at generally accelerating rates for over a decade (excepting the Swiss franc since 1971, and to a lesser extent the Deutschemark and the Dutch guilder).

(c) *Continuous global monetary crisis*—a decade-long series of increasingly frequent international monetary crises melding into one overall, continuous international monetary crisis with none of the major trading nations attempting the traditional deflationary remedy and no effective international monetary cooperation (except at inflating).

(d) *Global "floating" exchange rates—all* national currencies "floating" against others with no serious commitment by any nation to maintain a fixed exchange rate to gold or even to other national currencies (since 1973).

(e) *Global irredeemable fiat dollar reserves and world trading currency*—a world in which one irredeemable fiat national currency (the dollar) is the major component of the "monetary reserves" of other nations *and* is the major international trading currency.

(f) *Global issue of fiat, irredeemable "Special Drawing Rights" (SDRs) as reserve units and as "aid" largess*—a world in which there is an international agency (the International Monetary Fund), empowered by common assent of 128 nations to issue an internationally accepted irredeemable fiat paper "reserve asset" (SDRs) in practically unlimited amounts to dispense foreign aid to the oppressive rulers of needy nation-states.

(g) *Global runaway transfer payments*—a world in which the largest item in the budget of most major nations is "welfare" payments that are accelerating and for which the commitment is open-ended. (This, in conjunction with reelection-inspired spending legislation, is perhaps *the* principal engine of inflation.)

(h) *Global record, accelerating, unpayable debt*—a world in which debt amounts of all sorts, but especially national and international debt levels, have grown so large in relation to assets and revenues that there is no realistic prospect of debt retirement except by default, either through bankruptcy or, the easy way, through fiat money inflation.

(i) *Global record taxation*—a world in which, the only method open to the State for further increases in its seizure percentage is through the hidden tax of increasing paper-money inflation. For the long period of recorded history prior to this century, no nation-state has ever succeeded in directly taxing its citizens for more than about 25 percent of their incomes without provoking a revolt. Since World War II, the overall direct tax in the major industrial nations has climbed from an average of about 20 percent of national production to about 40 percent, while the printing-press-inflation tax has increased from an average of 1 to 2 percent to a range of 10 to 30 percent, with the total confiscation in the United States, for example, amounting to nearly 50 percent of domestic production.

The empirical economists (e.g., the Keynesians, the Friedmanites) cannot cope with the monetary and business-cycle aspects of either the national or international economic situation today. Their theoretic concepts only deal, incompletely, with situations for which there are precedents. Such limited concepts are wholly inadequate in the face of the aforementioned numerous unprecedented conditions, and they have no reliable method for extending their analyses.

There is no effective international monetary cooperation — except at inflating.

The Austrian economists' monetary and business-cycle theories, too, may be inadequate in their present state to deal completely with all the ramifications of the unprecedented situation. There is a vital advantage in the Austrian approach and scheme of thinking, however. The Austrian theoretic structures, built up from self-evident propositions concerning acting man, can be expanded by the same *a priori istic* methods to analyze and potentially to explain human conduct under any conceivable set of circumstances.

Without even attempting in this short analysis to apply the Austrian methods to the present situation, this much is immediately obvious: *Every one of the above unprecedented elements, (a) through (i) above, is fundamentally, specifically, and irreversibly biased toward hyperinflation!*

Through a long series of perverse modifications of rules and practices since 1913, the industrial nation-states' national and international monetary systems have eased all of the machinery into place for the inflationists' impossible dream: a world of 100 percent fiat currencies, paper backed by nothing.

What remains is for the inflationists to make this "system" work for more than a historical twinkling. They cannot. It must accelerate inflationary trends again and again; it must end in a world hyperinflation. There are both fundamental and concrete reasons why this is so.

Fundamentally, the principal reasons are that a fiat currency can circulate only as long as two necessarily temporary conditions prevail. First, because of habit and memory, people must generally have confidence that the currency will again become convertible into real money or, simply because of mass inertia, they must continue for a time to act as though the currency is still redeemable. Second, the monetary authorities must exercise restraint in making further issues of the fiat paper money.

As to the first condition, as time passes, praxeologically it is in the nature of acting men to lose confidence in a promise long unfulfilled. As to the second, as time passes, it is in the nature of acting thieves to be emboldened by their past success to attempt larger and more frequent thefts.

There are also concrete reasons why the inflationists' impossible dream will fail, three of them mentioned before: runaway transfer payments; record-size, accelerating, and unpayable debt; and record taxation rates.

All of these fundamental and specific factors must inevitably lead to inflationist failure: another reason for the coming currency revolt. This is a function of mass psychology. People revolt against taxes when they will no longer bear them or can no longer afford them; they revolt against currency depreciation, and the currency, for the same reasons.

Overall, of course, runaway inflation is fueled by runaway Federal spending of all sorts. I am narrowing the discussion of runaway spending down specifically to welfare spending,

however, because: (1) this category of spending is accelerating most; (2) it has become the largest single area of "government" spending (at all levels); and (3) it is addressed directly to an insatiable and illimitable demand (i.e., the political demand for something-for-nothing).

Welfare transfer payments are doubly damaging; they penalize enterprise and production and reward idleness and consumption. Thus, even when fully covered by direct taxes, they push prices up by decreasing the supply of goods and services while increasing demand. When financed by deficit spending of inflationary counterfeit dollars, they are triply damaging because they pit still more nominal demand against the decreased supply, boosting prices (i.e., depreciating dollars) even more.

Welfare spending increased steadily in the 1960's. In the 1970's it is exploding. In 1970 it had risen to $77 billion. As recently as 1972 it amounted to $119 billion, taking 33 percent of total Federal spending. In 1975 it jumped to $159 billion, consuming 48 percent of total spending! This fiscal year (ending October 1977) it is expected to reach $200 billion and devour over 50 percent of total Federal spending.

The inflationists' dream of 100 percent fiat currencies cannot work for more than a historical twinkling.

It is impossible for this trend to continue without leading to a hyperinflationary crackup within a few years. Yet the overall trend must worsen. All of the various programs tend to be self-accelerating. The total about doubled in the decade of the 1960's. Next it about doubled in the 1970-75 half-decade and will double again in the next two to three years; then again in the following one to two years? Then in less than a year? *Then . . . ?*

Officially, in the absence of a "truth in borrowing law," the published Federal debt is $620 billion. This is in fact a tiny part of the true unpayable total, however. According to the National Taxpayers Union:

"The so-called 'national debt' represents a small fraction of the total future financial obligations of the government. It is like the tip of an iceberg floating in a sea of red ink. Consider these official Treasury Department figures:

National Debt. . .	$ 620,000,000,000
Other Fiscal Liabilities. . . .	$ 69,000,000,000
Undelivered Orders.	$ 130,000,000,000
Long-term contracts	$ 12,000,000,000
Government Guarantees. . .	$ 175,000,000,000
Insurance Commitments.	$1,481,000,000,000
Social Security Obligations. . .	$2,710,000,000,000
Unadjudicated Claims.	$ 10,000,000,000
International . . .	$ 10,000,000,000
Miscellaneous Commitments.	$ 31,000,000,000

"This isn't even a full list of the federal government's debts. National Taxpayers Union recently completed a computation of the unfunded liabilities of 21 of the federal government's 60 employee retirement plans. This computation shows that taxpayers will pay out $499.155 billion in pensions, *even if there is no inflation for the rest of the century* [emphasis added]. A small inflation rate for a few years would astronomically increase these pension obligations.

"Last year alone, *twelve dollars* in unfunded financial obligations were created for every dollar of deficit spending. While the 'national debt' increased by $84 billion in 1975, the inflation created by deficits raised the future obligations of government at a rate of about *$83 billion per month*. In all, more than $1 trillion in future obligations were created.

"Unchecked, this can mean nothing but disaster. A vicious cycle of deficit spending and inflation is underway. Each new deficit causes greater inflation, which causes greater deficits, which cause still greater inflation."

Deficit spending increases the debt burden in two ways. First, it increases the Federal debt upon which interest must be paid. Second, it pushes interest rates higher for everyone.

Just since 1972, in only four years, interest on the official Federal debt has doubled from $20.6 billion to $41.3 billion (estimate for 1976) and now takes over 10 percent of the Federal budget. With record Treasury borrowings this year and next, with the outlook for interest rates to soar again later this year, and with Treasury debt issues being mostly short-term, we can expect that the next doubling, to $80 billion or more in interest burden, will come within two years; the next doubling in about one more year. Then . . . ?

Then hyperinflation, but perhaps sooner. Hyperinflation is not only the easiest way for the nation-state to handle its debt in the future—*it is the only way.*

People rebel against a paper money that is in fact losing its purchasing value at a rapid rate for the same reason they rebel against confiscatory taxes—they cannot afford not to.

Once this phase begins, it proceeds like a whirlwind, and in a matter of months—perhaps only weeks—the currency is worthless. Once this phase begins, it is too late to take defensive measures to protect one's savings from destruction. All of the elements for this to begin are already in place in 1977; I think it may actually begin as early as 1978. Every informed person should take defensive measures now, ahead of the actual beginning.

That is why I am sticking my neck out *now*, even though I may be way off on how soon inflation will actually reach this terminal hyperinflation stage. If I waited until I was sure of the timing, the information would be too late to help you.

One of the most remarkable aspects of human behavior is the lack of thought and care most otherwise intelligent people give to investment decisions concerning their personal savings. Largely this probably reflects their concentration on their own particular professional concerns to the relative exclusion of other things. But much of it is also due to their failure to understand the vital nature, function, and purpose of savings.

Conceptually, at the individual level, savings can be looked upon as the accumulative embodiment of the surplus of one's life effort (human energy) plus retained profits from exchanges. When an individual provides a service and voluntarily exchanges it for payment received, that payment represents a part of his life that is forever lost through the act of providing the service. Life's effort, a passing thing, is traded for a medium of exchange, which, when sound, is durable and can be used at *some future time*. Thus, when the parasite State confiscates savings through monetary inflation and destroys the medium of exchange, it is in reality stealing stored-up human energy, a portion of your life, for its own sustenance and growth. It is committing mass murder.

The simple act of destroying most of the value of the U.S. dollar (now about 20 percent of its 1940 value) has unleashed powerful and far-reaching forces of economic, political, and social destruction. These forces of change will increasingly exert themselves in international markets and in U.S. domestic markets, including the stock market. The fundamentals of the world economy or the U.S. economy can in no way be compared to the period of the last bull market in shares from 1949 to 1966. We are in a new period of disorder which calls for new criteria and new methods in investing.

No formula advice suits everyone, but there are some guidelines that everyone should observe. Factors to be taken into account are safety, liquidity, tangibility, profitability, leverageability, stability, and suitability.

(1) *Safety* doesn't need much comment; it should always be the first consideration for any investor. It will not be found in an asset that is continually depreciating, which any dollar-denominated asset is by reason of the fact that the rate of monetary depreciation is higher than the interest rate on most debt instruments and all bank accounts. Such "investments" are guaranteed losers.

(2) *Liquidity*. The investment one should be seeking is in something that is regularly and widely traded, preferably on a daily basis and in many different markets.

(3) *Tangibility*. It must have a value in and of itself, one not dependent upon the "full faith and credit" of any particular government. Given the political, monetary, and economic outlook in the world today, the "full faith and credit" of the government of the United States and that of the other major nation-states isn't worth the paper it is printed on.

A good investment must have a value not dependent on the "full faith and credit" of any government.

(4) *Profitability*. This is purposely ranked number four. One should have *sound economic reasons* to expect a profit, independent of the inflationary factor itself.

(5) *Leverageability*. This is simply the use of margin and borrowed money to take the fullest advantage of price changes. When the other factors are present, I recommend the conservative use of margin to multiply the potential of both the real profitability, from an economic standpoint, and the nominal profitability from an inflationary factor standpoint.

(6) *Stability*. This refers, not to the investment itself, but to the safety and permanence of the markets and the institutions involved in investing. (In the bear stock market of recent years, particularly in the low-volume, 300-point drop in 1974, many brokerage houses went under or were forced to merge.)

(7) *Suitability*. One should consider one's own personal situation, objectives, and perspective vis-a-vis the intended investment. Most people lose on short-term trades because they fail to do this. Long-term investments which feel comfortable are much better for most people.

These guidelines for investments in an inflationary depression are not the only ones that could be listed. I think, however, that they are the most important ones. They can be applied to any investment you may be considering.

As the 40-year-old inflationary super-cycle reaches its climax over the

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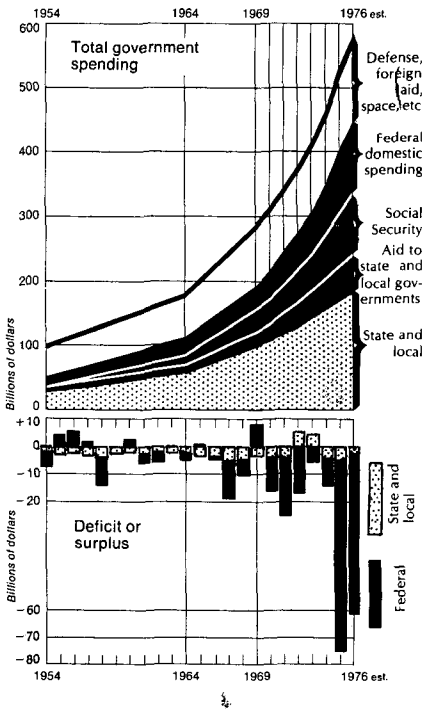
years immediately ahead, a *hard-money-oriented investment portfolio* will be important. In my judgment, it should consist principally of the following (in order of importance):

(a) Silver bullion: 40 percent to 50 percent, in a Swiss Bank;
(b) Silver coins: 5 percent to 10 percent, in personal possession;
(c) Gold bullion: 20 percent to 25 percent, in a Swiss Bank;
(d) Gold coins: 10 percent to 15 percent, one-half in a Swiss Bank, one-half in personal possession;
(e) Swiss francs: 15 percent to 20 percent, three-quarters in a Swiss Bank, one-quarter in personal possession.

These percentages are given in ranges and are only approximate, because personal circumstances and preferences vary widely and must be taken into account individually by each investor. In general, the percent ranges given are suitable for five-digit hard-money portfolios—smaller ones should favor coins more heavily; larger ones should favor bullion and Swiss franc deposits more heavily. Further, whether hard-money investments should represent a major or minor portion of one's total portfolio also depends upon individual factors, particularly the magnitude of the total amount of one's financial assets. *No "model portfolio" suits everyone.*

As a final word, there are also some dangerous traps to avoid. The most serious trap is having dollars locked in interest-bearing term deposits. Another serious trap to avoid is being a lender against mortgages. Further, although the equity markets may rise strongly this summer as a result of government-inspired, artificial interest-rate reductions over the past year and increased consumer and business spending this year, the stock market will halt in its tracks and reverse its course as soon as double-digit inflation clearly reappears, which I expect will be soon after mid-year. For a precedent, one need only recall that double-digit price inflation in 1974 drove the Dow Jones Industrial Average down to 627, its lowest closing level in 12 years—and, in real value terms, its lowest in 17 years.



In just 22 years, outlays by government at all levels in the U.S. have risen nearly sixfold. While the economy has grown, too, government spending has grown even faster—from 26.5 percent of the gross national product in 1954 to a peak of 34.7 percent in 1975. The rise in the domestic portion has been far steeper, nearly doubling as a percentage of G.N.P.

Chart adapted from *Fortune Magazine*, January 1977.

This picture of hyperinflation is *not* a pessimistic outlook. The great damage—the ravaging of people around the world—occurs *during* the course of rampant statism and runaway inflation. When hyperinflation takes over, it means that people are spontaneously throwing off the monetary yoke of systematic looting with which their respective nation-state hierarchies have bled away their substance. It means danger, but it also means opportunity.

At that critical juncture, which means the total destruction of nation-state paper currencies, the way will be prepared economically for a new and unprecedented era of prosperity and progress—provided that there exists enough economic understanding for markets to be left politically free to competitively provide sound money along with various other market services.

Indeed, herein lies the reason for long-term optimism. For this emerging depression can be best understood as the triumph of the orderly, harmonious, natural laws of human behavior and economics over the disorderly, coercive, capricious "laws" of the State. It has been so with all runaway inflations throughout history, although in the past, few of the participants had much comprehension of the laws governing human action.

In the present inflation, however, for the first time in history, there is comparatively widespread and growing, economic understanding of appropriate solutions, especially in the vital field of monetary economics. It is contained in that body of economic knowledge called the Austrian School. No other economic theorists are able to apply their theories so completely to practical life.

The Austrian economists cannot presently hope directly to influence either the President or Congress. However, *more importantly*, their theories and analyses have influenced a large and growing number of private individuals, particularly during the past decade. These individuals' increased understanding of the economic situation has proven immensely profitable for some of them as investors in recent times, while the past decade has not kindly treated others who have ignored the Austrian analysis. This understanding can be expected to spread and to broaden its impact in the future and eventually to have a dramatic beneficial effect on overall economic and social well-being.

We are rapidly approaching a time when the dollar will be rendered worthless, when the precious metals will again be recognized as money—yea, when free competitive markets may well foster an even better money and money system. For those able to protect themselves and their assets, there are manifold opportunities to disseminate the ideas which can slowly move society in a new direction—away from statism and stagnation and toward freedom and prosperity. [r]

Jerome Smith is editor of World Market Perspective *and founder of Economic Research Counselors. This article is based on material from his forthcoming book,* Understanding Runaway Inflation: The Coming Currency Collapse.

THE LOWDOWN ON GOLD

Dr. Harry D. Schultz

REASON believes its readers (mostly hard-money people) have a right to know exactly what went wrong with those rosy predictions of two and a half years ago by most gold-bug forecasters. And now that gold is glittering again, where, they ask, is it going?

Because so many gold devotees among newsletter writers (along with their followers) got their faces splattered with egg, it's important to point to an understandable human failing—which lay at the cause of the overenthusiasm for gold in late 1974. The failing was love and righteousness. Sound crazy? Not really. Gold investors fell in love with gold and refused to be objective about it—to see it as an investment that is subject to technical factors, as are all other investment forms. Most were also, correctly, *righteous* in feeling that gold *ought* to be crowned and made central to the monetary system, to give stability and accountability.

Of course, just because one feels this way, doesn't mean that realization will follow the desire. Goldphiles assumed that a rising price meant monetary recognition. They were partly right. But there is much ebb and flow in getting changes in a monetary system, and the investment arena is not the best place to fight battles for one's political beliefs.

So, because of love and righteousness, most advisers failed to see the flashing red light. Happily, I did. I told a large press conference in Toronto in the fall of 1974 that golds should be gradually sold and NYSE stocks should be gradually bought. Gold was very high and Wall Street was very low. Most of my contemporaries were saying: sell short NYSE and buy gold; it's going to $300. I wasn't more intelligent than they, just less emotional.

The signs were there, if one looked hard. The chart pattern was blatantly bearish, being both a top pattern and yielding a specific downside target (which I was too chicken to mention just then). The odd-lotters were into gold shares. Some people were buying gold without really knowing what it was; to them it was just another crap game. When my $20-a-minute consultation phone calls became 95 percent about buying gold and none about selling, I believed the top had come. I wrote in my newsletter, in late December 1974, to start selling.

The nearly two-year gold bear market that followed was dispiriting to all who like gold for political reasons. Many (me included) made errors during that time by getting back in and then having to exit again. We felt for the bottom for months. When it came, the signs were fairly clear—but by this time we were all gun-shy, afraid to say "buy" in case our heads got shot at, again. But a few of us did say "start buying slowly; it looks like the worst is over." Soon the evidence piled in and one could begin to say again what one was happy saying—but had become conditioned to avoid.

Recently, the evidence has become so overwhelming that only a masochist would stay out of the gold market. *Technically* overwhelming, that is. One should only be gung-ho for an investment, however, when there is both a

fundamental *and* a technical case. Is there a fundamental one? A real one, I mean, not just because we believe in gold-backed money, etc. Yes, there most certainly is. Multi-pronged in fact.

Most importantly, there's the specter of inflation. The raging argument over deflation versus inflation has become a bore and the statistics coming out now are making the inflation case the clear winner. Nothing is more bullish for gold than an increasing rate of inflation.

Next comes the interest rate battle. Here too, people lined up on the sides of predicting either higher or lower interest rates. Short-term, the lower-lads were right, but medium- and long-term, the higher-rate view will prevail. In fact, as REASON goes to press there may be a sharp turn-up being unveiled. I predict an almost unbelievable two percent rise in interest rates very soon. This too is always positive for gold.

Then there's the monetary aspect. While there is great talk at IMF (International Monetary Fund) meetings about dethroning gold, the truth is that while *speaking* to limit gold's role central bankers have *acted* to increase its role. For example, by killing the official price for gold (which sounds bearish and is intentionally reported that way), they have freed its price to rise—which most central bankers privately desire. And it was made permissible for central banks to reprice their gold reserves at the free-market price if they choose to do so. A few have. Soon they will all do so. Also, it was made legitimate for central banks to buy gold thru the BIS (Bank for International Settlements in Basel, Switzerland), even though slightly frowned upon. When the new IMF amendment is fully ratified (perhaps by June 1977), central banks will be permitted to buy gold *directly* from IMF auctions. In theory, maybe even open-market buying will be allowed. Also, gold has been *monetized* in the last two years by central banks' sanctioning of loans being granted with gold as collateral and tied to a market-related price, sometimes a flexible and adjustable price. Nothing could be more bullish.

Nothing is more bullish for gold than an increasing rate of inflation.

And so it goes. Step by incredible step, gold is being pushed into the monetary system, while speech after speech talks about how the opposite is being done. It's a case of "believe what you see, not what you hear."

The IMF gold auctions have been hailed as the great bear event of 1975-76. And it certainly had its bad psychological side. But again, it helped gold get further into the monetary system, because some of this gold has already been bought by central banks, giving them a greater *vested interest* in gold and its price. Then too, industrial and jewelry consumption of gold has increased to the point where it absorbs most of the new supply by itself. That can only mean more competition for the inventoried gold. The effect on price is clear. One can add that political instability seems to be increasing. That's a bull point too.

And if we fail to mention currency nervousness, we would be negligent indeed. Floating currencies have been a disaster. It's just managed rates now. Floating hardly comes into it. There has been more currency instability since floating started than in the decade of fixed rates that preceded it. When currencies gyrate, people turn more to gold.

And then there's the big "nuclear bomb" of the gold picture—Russia. If she decides to back the ruble with gold, as my sources advise me she will (for an "external ruble" only and not for locals) then the pressure on the gold price will redouble.

So there you have it. Technically and fundamentally, the cases are solid. The gold bear market is over. A new gold bull market is on. Where next? Well, since the recent price push, people have been flocking back into the market, and that means a correction is due. A lot of to-ing and fro-ing should be seen in the gold price for the remainder of this year. But the trend will be upward. Those who buy on setbacks and sell on runups will fare best and sleep most soundly. Goldphiles simply must face the facts of life—that gold is an investment like all others, to be sold and bought back and sold again. Gold is not a religion—at least your investment in it isn't. Or shouldn't be. It may be a religion for political purposes and I'll always be a bull on gold in this respect—never a bear—for gold can create and preserve freedom. The absence of it kills liberty, creates slavery.

And what about those $300 predictions of yore? Well, I suspect they weren't wrong, just premature. We'll see $200 gold before long. And if inflation really gets rolling, $300 is not the least ridiculous. But for the short term (which is where we live), don't invest today and hold for a big number like that. It may never come. And even if it does, it certainly won't be in a straight line. Gold will rise and crash a thousand times before it goes to $300—small rises and small crashes, but hard on the emotions just the same. And you can make 500 times more profit if you keep selling and then keep buying back, rather than just buying and holding. It's safer too. I recommend it for widows and orphans. Why? Because *if* it should go sour (because of government regulations, for example, prohibiting gold ownership again, etc.), then selling is wise. Riding things down hoping for a comeback is never wise.

But this was not meant to be an article including investment tactics. The major points are, rather, that gold reflects certain economic conditions. Gold rose in the early seventies for logical reasons. It fell in 1974-75 for logical reasons. It is rising in 1977 for the reasons set forth herein, which I trust are likewise logical. Viewed in the terms of this reasoned REASON article, I hope we make ourselves able to outguess gold—most of the time, anyway. Gold is almost a law unto itself. Trying to understand it can be rewarding. Gold luck. ◻

Dr. Harry Schultz is the author of 13 books on money and puts out three investment newsletters—the International Harry Schultz Letter, Exodus, *and* Gold.

INVESTMENT OR IDEOLOGY? IT PAYS TO KNOW THE DIFFERENCE

Dennis Turner

Three times in the last 10 years, many libertarians and fiscal conservatives have taken severe financial beatings because their investment decisions were influenced by ideology. I should say, *at least* three times.

In 1967 silver prices began rising rapidly. Near the top of the market, at $2.50 an ounce, one found investment advisors of the libertarian and fiscal conservative variety pouncing on their constituency and inducing hundreds of thousands of people to pour their savings into silver—after the tremendous price increase had already occurred. The price began to falter, then plummet, leaving enormous losses for thousands of people. I know many who lost a considerable sum in that fiasco.

In 1974 it became apparent that gold would be legalized at year's end. Throughout 1973 the number of operators peddling gold and silver to the public grew at least tenfold. In 1974 the price of gold reached $180 an ounce, then began slipping as new speculative demand diminished and some of the previous purchasers of gold began liquidating some or all of their gold positions. The tremendous increase in gold prices from late 1973 through early 1974 was primarily new speculative holders competing with each other for the same gold. One reader of REASON, for example, would be selling to another reader of REASON, who then sold it to another.

The entire price increase can be explained by new fiscal conservatives or libertarians buying precious metals for the first time or increasing their holdings. The arguments were familiar—inflation, monetary collapse, socialism, would induce people to convert their assets out of paper and into precious metals. The price of gold would rise and continue rising until enormous, even $800 or $1,000 per ounce.

With the petroleum boycott beginning in October 1973, many were convinced that the world—at least the Western world—was coming to an end. Italy and Japan were suffering severely, the Primitive World was starving because of the high oil prices, and the newfound wealth of the OPEC states brought forth suggestions that the entire West would be bought up by them. Currencies were unstable, and the industralized West incurred fantastic balance of payments deficits. In addition, it was in the summer of 1973 that the economies of the United States, Western Europe, and Japan peaked, entering the worst economic decline since the Great Depression.

There was good reason for pessimism. Indeed, fiscal conservatives and libertarians often viewed the economic decline with glee, as they felt it was well-deserved punishment for the government's following the nostrums they had held for years. Many new speculators converted their holdings from paper to precious metals, including both silver and gold coins, Swiss currency, silver bullion, shares in gold mining companies, and gold itself, although gold bullion remained illegal at the time.

This wave of buying, from the inception of the oil boycott through early 1974, was sensible for many people. It was a good bet against what appeared to be a grim economic trend. Libertarian investment advisors were not the only ones recommending gold as a good hedge against inflation. Inflation rates *were* high, and gold was becoming popular among groups of people who had no previous interest in it.

The market also became more normal beginning in March 1974, when the oil boycott was lifted. Although the oil states were accruing vast amounts of Western currency, it had already become apparent that they had to do something with it. If they just held the currency in Arab coffers, they would be sending us petroleum in exchange for a few pieces of paper. Perhaps *Western* politicians are foolish enough to advocate the short end of such financial legerdermain (credits to the Communist bloc to purchase our goods), but the Arabs are not so stupid. They placed their money in financial instruments in the West so that it could earn income, and they began massive importing of goods. The wealth was circulating; they were not buying up American industry. In addition, although the recession was deepening, no catastrophe was engendered either by this or by the oil boycott. No Western governments fell to the far left. Hardship, yes, but catastrophe, no. No riots, no starvation, and the unemployed got by with unemployment benefits.

So the gold market began declining, from $180 per ounce in March 1974 to $130 in early July.

But then Congress passed a bill permitting the President to set a date for legalization of ownership of gold for American citizens, and the date was set to be December 31, 1974. And this led to the greatest self-delusion in investment since the silver debacle in 1967-68. The peddlers of gold and silver began their pitch, not only based on the forecast of economic collapse—which should not have been taken seriously at this time—but also based on the projection of an enormous increase in speculative demand greeting legalization. Many libertarians and fiscal conservatives were taken by the argument that since they were enamored of gold everyone else was likewise hankering for it, just waiting for legalization.

The amount of advertising appealing to the public was utterly astounding. In one issue of the *Wall Street Journal*, in November 1974, two-thirds of all investment ads advocated the purchase of precious metals in one in-

carnation or another—bullion, coins, share, or medallions. The sales of firms such as Franklin Mint and other produces of commemorative medallions soared. These mints sold their precious metal medallions as investments, although any quick calculation would have shown the price of gold required tripling before the gold content in the medallion would equal its price.

Still, many fiscal conservatives and libertarians bought. As with silver previously, they were bidding up the price against one another, confident that when legalization came the American public would swarm to the gold merchants en masse, buy gold, boosting the price into the stratosphere and making their own investment in precious metals, previously purchased, extremely profitable.

The first error was in believing that the public thinks along the same fiscal lines. The moderation in the recession, the receding of panic over the oil boycott, and the abatement of trade wars did not satisfy libertarians who believed that the economic policies, if anything, were growing worse. Although this recession might not be the one that Britainizes the United States, such decay was sure to come. Therefore gold should be bought; at worst, the necessary gold buying would precede the collapse by a few years (at most). Surely broad sectors of the public realized this.

But if broad sectors of the public agreed, the policies that produced the recession would not have been enacted. The fact that the public demanded more State intervention in response to the crises shows clearly that they do not agree. Gallup polls confirm this evidence.

As soon as the worst was over the public forgot about an imminent collapse. The need to convert paper into precious metals became part of the mythological past in only a few short months.

In the three months preceding legalization, selling activity had become frenetic. Wall Street brokerage firms and banks entered the market. All prepared to provide the masses with the tons of bullion that would be demanded on December 31, 1974. Advisory services sprang from every closet. Bullion firms filled page after page of the *Wall Street Journal* with advertisements for their wares.

Those who know me know that from the very day legalization was approved I advocated selling gold. The gold rush never appeared. *There was nobody left to buy!* Everyone who was going to buy gold had already bought it or one of its surrogates—gold mining shares, medallions, coins, Swiss francs, or silver bullion—or had illegally bought gold through Swiss bank accounts or other offshore banks. That the price of gold would collapse was obvious to many insiders, including the floor brokers on Commodity Exchange, Inc., almost all of whom went short on gold the first day of trading—with many libertarians and fiscal conservatives taking the long side, even as they had bought silver in 1967 and '68.

Fiscal conservatives and libertarians often viewed the economic decline with glee, as they felt it was well-deserved punishment.

The strangest example of self-delusion among a number of libertarians and conservatives, however, was the Great Mexican Peso Debacle. It is saddening that so many small investors could destroy themselves financially over so preposterous a ploy. This too, is not hindsight, for readers of the controversial book, *You Can Profit From the Coming Mideast War,* know that Chapter 6 forecast the devaluation of the peso. The book's only error concerned the size of the devaluation—it was larger than forecasted.

Mexico was following policies that, when pursued by American politicians, were denounced as certain to end in devaluation.

The mystique of the Mexican peso began in the spring of 1975, when a well-known libertarian investment advisor began strongly advocating the purchase of pesos in every issue of his newsletter. Shortly thereafter, other libertarian advisory services began the advocacy, not to be left out of this new source of miracles.

The argument was to buy distant deliveries of Mexican peso futures and await their maturation. Since peso futures have been traded on the International Monetary Market of the Chicago Mercantile Exchange, the tendency is for distant futures contracts to begin trading considerably under the official exchange rate, 8 cents per peso, and slowly increase in value to 8 cents as the contract comes due. Hence the investment is a sure profit. The Mexican peso contract calls for delivery of one million pesos. The margin prior to the devaluation was low, about $3,000 or $4,000, depending on the brokerage firm. Distant contracts (those with, say, 18 months to trade prior to expiration) would begin trading at about 7.1 cents per peso. Thus, between the time it began trading and expiration, the contract would increase in value by $9,000. This is 300 percent profit on a margin of $3,000. Over 18 months it would annualize to 200 percent profit. *And a sure thing to boot.*

Why could not the peso fall? Certainly other currencies rose and fell against the dollar. The investment was only a sure thing if the peso was *destined* to rise to 8 cents at the point of expiration of the contract.

Yet these investment advisors discounted any possibility of devaluation. The historical relationship between the peso and dollar was always to hold—because it always had held.

Why were these libertarians so enamored of the Mexican currency? Certainly it could not be due to that government's fiscal responsibility. The monetary authorities were increasing the money supply at roughly 30 percent per year, were running a severe balance of payments deficit (lowering demand for the peso outside Mexico), and carried a huge deficit. The government of Echeverria was leftist and identified with the Primitive World, constantly denouncing capitalism, imperialism, and multinational corporations. Taxes increased 150 percent during Echeverria's six years.

In other words, Mexico was following policies that, when pursued by American politicians much more temperately, were denounced as certain to end in a devaluation of the dollar. The same policies that led libertarian and fiscal conservative investment advisors to tell their clients to clear out of Britain and Italy led them to tell their clients to invest in Mexican currency. They used these policies to advise being short the pound, but ignored them

when advising their clients to be long the peso. Yet Mexico followed policies more irresponsible, socialistic, and expansionary than did Britain or Italy.

Indeed, the well-known distrust of political pronouncements and politicians failed when one libertarian investment advisor discounted any possibility of devaluation by quoting Echeverria's promise never to devalue the peso relative to the dollar! Why was every statement by an American and British politician caustically distrusted and the very same promise from a Mexican politician believed?

Mexico's expanding oil production was used to argue for the continued strength of Mexico's economy and currency. But this argument is a cash-in. Mexico only recently became a petroleum exporter. Unlike Saudi Arabia, its petroleum exports per capita are tiny, perhaps 200,000 to 300,000 barrels per day among 75 million people. Optimistically, using the government's own estimates, exports would not reach a million barrels a day until 1980. Even Iran, with 5 million barrels a day among 24 million people, is running a budget deficit and has more imports than exports. To argue from Mexico's oil production to the continued strength of Mexico's currency is either poor thinking or pure dishonesty, an attempt to find any support, no matter how transparent, to convince a gullible public to invest in pesos.

The devaluation, as inevitable as that of Britain's, came on August 31, 1976. Peso futures immediately fell to 4.4 cents, before a slight rally and a subsequent drop to 2.9 cents. Losses per contract ran a minimum of $35,000 and as much as $50,000.

Thousands of libertarians and fiscal conservatives held contracts, the result of an incessant advertising campaign by a small circle of investment advisors. I know of one who held 22 contracts and lost $650,000. Total losses among libertarians must have exceeded $50 million and may have been as much as $125 million.

What brought about this suspension of reason? One factor was undoubtedly the desire for something for nothing, a sure thing that will bring riches. Even among libertarians and fiscal conservatives there is this hope—witness the gold debacle immediately preceding the Mexican peso debacle. Another reason may be a tendency to believe in anything even indirectly anti-Western. There is a widespread feeling among many of us that the West has sinned and deserves the fruits of its folly in the form of economic collapse. Therefore, the belief in the strength of a non-Western economy comes easy.

By investment in Mexico, an almost political act, the policies of the West are being rejected—sort of a vote, with the dollar, of no confidence. And this emotional, ideological act can be very costly, as it was to thousands of unsuspecting innocents who believed the peso would have to hold up because the United States would thus be punished for its socialism and welfare-state policies. As bad as the West is, however the rest of the world is worse. As foolhardy and stupid as U.S. policies are, the policies of the Primitive World are even more stupid—which is why they are primitive.

Belief in the strength of a non-Western economy comes easy to those who feel that the West has sinned.

There is a tendency among the ideological to believe not only that they possess the Truth in ideological matters but that even the least important matters in the world must conform to their axioms. The Mexican peso has an obligation to remain strong, if only to reveal the sins of the West and to show their sagacity in rejecting those sins. Unfortunately, it was forgotten that the Primitive World is even more sinful.

Will we witness yet another suspension of reason for ideological investing? True, some bought silver or gold or pesos—gold, in particular—not to earn huge sums, but in an attempt to keep what they'd already earned, that is, as security against government monetary meddling. But those who advised buying or bought to make a killing, assuming that everyone shared their antigovernment ideology, were rather foolish. And any who bought on the theory that the West *would* be punished, that the market keeps a moral tally sheet, were utterly foolish. Perhaps with three debacles under their belts, those whose investment decisions flowed from ideology have learned their painful lesson. ◻

Dennis Turner is a commodity trader with the New York firm of Incomco. His most recent book is Trading Silver Profitably.

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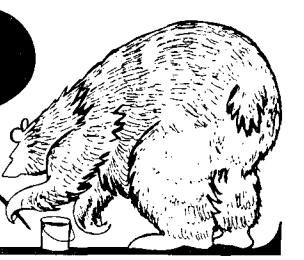

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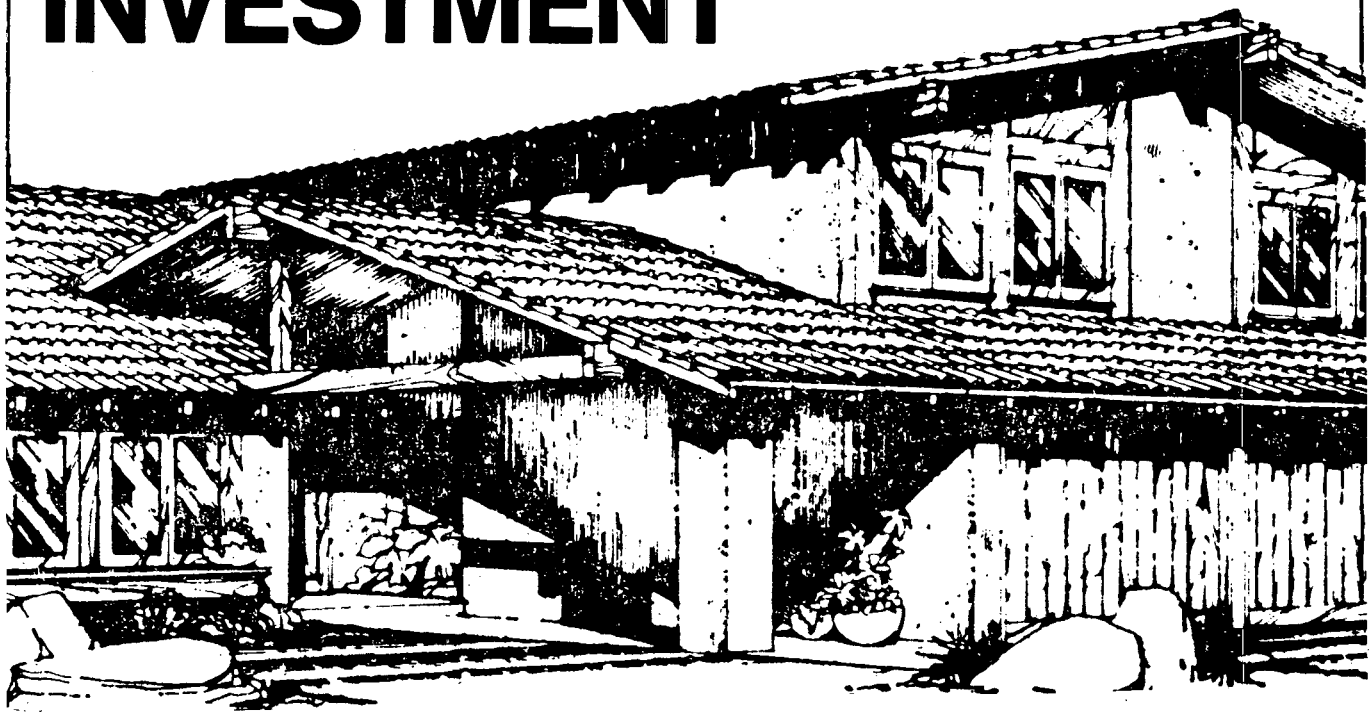
WHY REAL ESTATE IS A GOOD INVESTMENT



John V. Kamin

During the 1970's free-market-oriented investment advisors have had few kind words to say about real estate. Indeed, most of them have considered real estate to be a liability, something to dispose of as soon as possible in preparation for economic troubles to come. Financial salvation, it was said, lies in gold, silver, and Swiss francs, not in lowly real estate.

Meanwhile, in 1972, 1973, and 1974 this writer's investment clients were "salting away" as much useable real estate at rock-bottom prices (just as the advances began) as they were gold and silver coins! Many folks just starting out, in their 20's and 30's, made many *thousands* of dollars in real estate. While hard-money markets dropped back sharply in 1975 and 1976, real estate prices *continued* their advance. The pace of sales speeded up.

Therefore, the editors of REASON thought it might be interesting to bring you the opposing viewpoint—buying and owning real estate, as opposed to panic liquidation—and you know which economist was selected to play Devil's Advocate. No one else was in sight!

To give you an idea of how fast prices have been advancing, statistics just released in Southern California show that existing homes jumped 11.5 percent in value from April to October 1976, an annual rate of increase of some 23 percent—and this while gold was busting new lows! Not only that, in the two *previous* six-month periods, the six-month rates of increase were 9.4 and 7.7 percent. Not only were prices rising at a fast clip on in-place housing, but the rate itself was steadily accelerating. By the time you read this article, there may be further price rise statistics, showing additional continued increases!

The demand for new homes far outpaces the supply. In March of this year, reports Dick Turpin "Eighty-seven persons waited in line to buy 56 Sea Colony/Point Loma townhomes on a Saturday. All 56 were sold in three hours. People began lining up three days earlier and by Friday evening, some 45 prospective buyers were camped out at the sales office.

"The last phase of 85 new homes at Country Hills (Torrance) had a near sell-out last weekend. Of the 85, only 12 remain. Prices on these remaining homes range from $115,000 to $134,000.

"Foxridge, hilltop community in Westlake, is sold out. Within two hours on a sunny Saturday morning, all homes in the final phase were eagerly purchased by 51 lucky buyers. They were the fortunate families selected by lottery drawing from 150 names.

"The investment-wise, of course, have added to the panic by buying for a quick turnover or buying-to-rent. Lotteries were instituted to eliminate most speculative buying but once the lottery winner gets his house, he can live in it, rent it or sell it.

"At Woodbridge, where housing history was made last June as the Irvine Co. attempted to cope fairly with 8,000 potential buyers, speculation has involved an estimated 30 percent of some 500 homes.

"There are reliable reports also that some of the originally bought 311 dwellings have been sold twice and even three times at profits of $5,000-$10,000. Other homes are rented." (*Los Angeles Times,* March 13, 1977)

If there is any doubt in your mind that the kind of real estate I have been recommending has been rising in price, don't take my word for it, just check the statistics. Don't confuse individually owned real estate and dwellings with the plight of large cities like New York, or glutted downtown office space, or ghastly ghettos. The kinds of real estate I recommend then, and am discussing now, are the single-family residence, small buildings up to four units (exempt from Nixon's rent controls last time around), and small, commercial buildings (also exempt from rent controls last time); particularly on the fringes of metropolitan concentrations of 500,000 population or more. That *was*, and that *is*, the *only* kind of real estate recommended—useable, already-built, in-place structures—*not* leases, not condos, not boondocks land, not downtown office space, not ghetto redevelopment.

Contrary to widespread belief, you *don't* have to be a genius to nail down thousands of dollars in profit either. Example: for most folks, their own house has proven their best financial investment of all, in terms of price appreciation, and rent saved, and tax deductions.

Lest there be any misunderstanding, let's dispel any myths immediately. Your author-economist is pro-free market, pro-gold. Kamin's First Law states: "All currencies will decrease in value and purchasing power over the long-term, unless they are freely and fully convertible into gold, and that gold is traded freely without restrictions of any kind".

To make money in *real estate,* the second myth you'll have to dispel is that you can't make money because: A) you're too young, B) you're too old, C) you don't want to join the establishment, D) you can save money renting, E) you're single, F) you're married, G) you're going to be there *less* than five years, H) you're going to be there *more* than five years, I) you don't want to be tied down, or J) the country's going to come apart sometime in the next six months on a Black Tuesday, and the only safe place will be a cave in the hills with a rifle and dehydrated food, K) you've got a wart on your nose, a one-legged uncle, or some equally silly reason.

Once you've gotten rid of these *self-imposed limitations,* you are ready

Southern California homes increased in price at 23 percent per year while gold was busting new lows.

to begin making money on real estate. On the other hand, *no one* can make you a real estate millionaire in *one* magazine article, if you've already managed to avoid becoming a millionaire in the last 5, 10 or 20 years.

There are some good places to start in, though, and some measures that you can take to help pave the way for your success in this often misunderstood and misadvised, but lucrative area. Several books are "basic training" for anyone who wishes to make thousands of dollars in real estate consistently.

1. *The Land Game* - By Al Winnikoff. Encouragement to any young couple with low capital. Fully detailed case histories, blow-by-blow account how he built a $100,000 estate in less than 10 years; easy-to-read, detailing pitfalls to avoid when venturing in real estate. $7.95; 288 pp.

2. *How to Make Money Fast Speculating in Distressed Property.* (1977 edition) By John V. Kamin. Clear, frank, and forthright facts to help you buy on a limited budget. How, when, what to buy, how to negotiate for lower prices; how to buy way below market value. Furnishings, food, cars, etc. at 10 cents to 25 cents on the dollar . . . where to get them, how to find right broker, sell for top dollar. Helpful advice for senior citizens. How to make $1 in repairs worth $4 when you sell. When should you rent, when should you sell? Insider "tricks" to enhance your property's value. Get a mortgage at lower interest rates; refinancing. Becoming a financial individualist. Using escrows for profit: three methods to buy property equity cheap. Working person's five-prong housing strategy. How to lower risks. Selling your property. How to save commissions. Wholesale auctions. Questions and answers. Recreational land. The wrong way to buy a house to live in—the right way! One transaction could save you $1000s. $12; 250 pp.

3. *Winning Through Intimidation* - By Robert Ringer. What may appear to be a real estate book is really a book about life! How to avoid being intimidated! How to negotiate successfully and profitably. How to collect your money. The universal attorney-to-attorney respect law, 30-year cycle theory, "iceball" theory. Written with a sense of humor, you'll take pleasure in the many cartoons. $9.95; 237 pp.

These three books are easy, fun-reading, present a wide-ranging diversity of viewpoints, and are available from bookstores, our firm, libraries, or directly from the publishers. William Nickerson's paperbacks are also good, available at any bookstore. I suggest you read all three authors.

While you're reading them, you can take Step 2, and that is: start saving up some capital. You'll need a *minimum* $1,500 to $5,000 to begin, as a practical matter. Since that kind of money doesn't appear overnight, you can move forward on both the "reading" front and the "money" (capital accumulation) front simultaneously, shortening your interval to success. If you already have some experience in real estate and some capital, all the better. You can shorten the intervals that much more.

Today, you hear people say they are afraid to put their capital into real estate because of differing views about the Carter administration. But people said the *same* during the Ford administration, the Nixon administration, the Johnson administration, the Kennedy administration, and the Eisenhower administration. And, in the meantime,

that well-selected improved real estate went up, up, up.

Is there *any* doubt in your mind that we'll have *more* inflation, most of the time, over the next 10-20 years? Just as we have had *continual* inflation in the past? Is real estate the perfect hedge? No, *there is no perfect hedge.* A search for the perfect hedge would be fruitless and waste a lot of time and money. While you live in the here and now, you've got to operate under the conditions existing here and now, even though today's conditions may not be to your liking or your personal choice. As a professional economist, I maintain that carefully selected useable property can 1) give you freedom from landlords, 2) bring some financial independence over time, 3) help you beat the inflationists at their own game.

It is the price of *new* housing in metropolitan areas that helps set the bidding on existing buildings of the kind recommended. Let me ask you some questions. Do you see evidence that *labor* costs, the wages of the craftsmen who build new houses, are going up or down? Do you see the price of desirable improved metropolitan land, suitable for immediate housing construction going up? Or down? What has been the trend over the past 30 years? What has been the trend over the last three years? What will be the likely trend over the next three to 30 years? Sure, during 1977 you can walk into any gathering, and hear old timers say "Real estate prices are *too high".* Chances are, you could have walked into any gathering and heard them say the same thing in 1976, 1966, 1956, 1946, and 1936! Chances are they will be saying the *same* thing in 1986. Are you going to hold your breath and wait for them to drop 10 percent? Or are you going to get out there and learn something about the *real* world of real estate yourself?

Is a quick plunge the answer? Can you just wave a fistful of $1000 bills and make a killing? Such a belief is naive. It may happen, but the odds are against it. Free-market libertarians know that knowledge is power and ignorance is weakness. The more knowledge you have, the better your chances of making money, making that eventual killing! As much as I would like, then, I won't give you any "hot" tips that would enable you to triple your money with a $1000 bill tomorrow.

Real estate is a specialized and complex area of study, which lends itself well to the acquisition of personal knowledge supported by some risk capital and personal action. Where, then, do you go next? I suggest you start by reading the books briefly summarized in this article. In fact, if you were a client of mine, I would *insist* you read these books, so that we are both talking the same language, before going any further.

Second, I suggest that, as a novice, you confine your real estate activity to improved properties that can be occupied, or rented, or sold on that basis, properties that appeal to broad markets. That means single-family residences, small but modern commercial buildings, duplexes, triplexes. It does *not* mean vacant desert, large commercial lots, tumbled-down ghetto firetraps one step away from being condemned!

Third, I also suggest you concentrate on metropolitan areas of 500,000 population or more. As a novice, when you resell, you'll want to have access to many possible buyers, to make resale easier, to get your profit out when you have it, intact. Also, should you have to sell in a hurry to generate cash for various reasons, you're better off in a big market with lots of potential buyers rather than a few who might meet some day in the local coffee shop and decide which one of them is going to buy your property at what price! Stick to bigger metro areas, preferably on the fringes.

Carefully selected property can help you beat the inflationists at their own game.

Fourth, I suggest you buy within a 30-minute drive of where you now live. Properties, unlike other financial commitments, require *attention,* are affected by zoning developments, can be subjected to vandalism, need TLC on landscaping, etc. A hundred miles away or more is *too far* for you to pay close attention, dicker with contractors and repairmen, visit regularly, study local papers for developments, meet quickly and easily with interested buyers, etc. Take out a map of your area right now and draw a circle encompassing a 30-minute drive of your home. That is your territory. I suggest you get to know it well.

Fifth and last, but not least, examine the many sources of foreclosures and need-to-sell properties. These can be trustee sales, creditor sales, sheriff's sales, legal newspapers, estate sales, and REO's (Real-Estate-Owned by financial institutions). These techniques and sources are explained in detail in the 1977 edition of *How to Make Money Fast Speculating in Distressed Property.* Frankly, I wrote that book to help people who kept asking me the same questions over and over and over. It was written to be a tool kit. As a skilled craftsman, you need to know how to use the tools at your command. As a real estate buyer and seller, you need to know how to use the real estate tools at your command. Yes, a book or two *could* cost you a few bucks. However, most people will buy *at least* one property in their lifetime, and some will buy many, usually five figures or more. Therefore, the initial cost of a book is microscopic in relation to the dollars-at-risk in a real estate transaction of yours sooner or later!

Can the beginner, the little guy, still make a lot of money in real estate? It is my personal opinion that he can, that the opportunities are as great now or greater than ever. I bought one small tract house for $23,500 in 1972. That house is now rented pulling in over $4200 per year in rent, and would sell on today's market for $50,000 to $55,000. Further, I bought it with less than $3000 down and assumed monthly payments of $181. While prices *have* changed in the interim, chances are that there are still good buys in your particular area as well.

Obviously, this is one profitable (but typical) example out of several for myself, examples that are being repeated by many people. How did it happen? Did I just "luck into" finding that particular property, buying it right, getting the deal closed, getting it rented to generate over $4000 per year, buying in the right location so that it would quickly double in price? Of course not! Much preparatory work led up to that transaction. For six years prior to that particular transaction, I read everything I could get my hands on in real estate. Everything! Much of it was trash, much of it was worthless. Nevertheless, prior knowledge is necessary before you actually go out buying properties. It is an absolute necessity, not something to fumble into, something that repeatedly occurs by "luck". Profit requires sweat, effort, exercise. Profit requires knowledge, not "hot-tips" contained in one magazine article.

After reading and studying, what is the *next* absolute necessity? It is a

plan of action. What do you want to buy? How much risk do you want to take? What territory do you want? What kind of houses are you going to look at, or commercial buildings? Frame? Brick? Block? High priced? Low priced? With lots of land? Or with minimal land? How old? Make a plan, make a list of precisely what you are looking for, lay out the parameters, and put them on a sheet of paper. Then go to a quick printer and have 100 copies of your specifics on a fact sheet printed up for brokers.

After reading the books, building some capital, and making your plan, you're now ready to start the next step—working with brokers. Again, was it an accident that your author selected the *particular* broker with that house? No, the broker who showed me that house and made a commission from the deal was only one of some 30 brokers I contacted. She knew what kind of property I was seeking at what price, because she got my fact sheet and tried to match it with her listings from the multiple listing service. In fact, of some 30 brokers I contacted those two months only about three really knew what I was talking about. She was one of them. Most of the brokers wasted *lots* of my time (and probably thought I was a waste of their time). Some brokers kept showing me prospective purchases that *in no way* even came *close* to what I told them I wanted, in terms of price, size, or location. They must have "figured" that I would see something I liked if they just showed me their favorite six properties and throw my list of needs and interests in the first wastebasket! Believe it or not!

So if you thought all you would have to do was clutch a few $1000 bills in your hot little fist and rush out after reading this article, to make a deal for $10,000 or $35,000 profit, forget it. That's *not* the way it works. What is contained here is a brief explanation of a tool kit. But it's up to you to learn what the tools are and proceed with a plan of action to use them skillfully. Yes, you can indeed make thousands in real estate. Further, you can do it part-time. It does *not* require you to quit your present occupation or employment. But the chances of your doing it very successfully, as I have outlined, are remote unless you are willing to put in some time and effort.

Before that scares you away, remember, it *is* being done. It is being done by myself and others regularly. It is being done by people without as many advantages as you have—in other words a broad spectrum of the populace. No one else may encourage you, but I encourage you to plunge ahead. Get on with the job at hand! ◻

John Kamin is a consulting economist and editor of The Forecaster, *a weekly economic newsletter. He has written several books and pamphlets on various investment topics.*

PROFIT FROM THE CARTER ERA

(continued from page 21)

Anyone who has a truckload of heating oil during the next winter will reap a small fortune selling it to some homeowners in the coldest regions. It would be well worthwhile to buy a truckload and drive it north. How to arrange such a purchase requires only a little guts—talking with some suppliers now regarding a purchase next winter. Someone willing to take a little risk can easily make $5,000 to $20,000 next winter from a single truckload.

There will be even more opportunity in chemicals. If next winter is cold, controls on refinery production will be instituted. It was almost done this winter, with much better inventories. Companies will be on allocation, usually a percentage of last year's usage. This will be true for most petrochemicals, particularly those used in industrial production. Consumer products will receive priority. During the 1973-74 embargo the price of cotton skyrocketed because the allocations for synthetic fabrics were reduced. Benzene, a basic petrochemical feedstock, rose eightfold in price. Products easy to store, such as styrene chips, went from 17 cents to 55 cents per pound. Vinyl acetate went from 18 cents to $2.10 per pound. Certain solvents did even more phenomenally, acetone rising from 7 cents to 75 cents. All these products are readily available now.

Any libertarian with a few thousand dollars and some guts, willing to do the legwork, can make a small fortune next winter. It will be cold, there will be shortages of natural gas and heating oil, and consequently, there will be price controls, production controls, and distribution controls. It was Nixon's response, and it will be Carter's.

Anyone with a few thousand dollars and some guts can make a small fortune next winter.

During the last oil embargo, cotton rose from 40 cents per pound to 85 cents per pound. During this winter, cotton rose from 67 cents to 78 cents per pound. This is due to lack of petrochemical-based synthetic fibers. During the next winter, it would be wise to buy cotton futures when the first layoffs occur. That is when the State will intervene, demanding the production of heating oil instead of petrochemical feedstocks.

A futures contract in cotton is 50,000 pounds, so each 1 cent/lb. increase in price is worth $500. Another cold winter with much lower inventories will send cotton prices much higher than during this past winter. Margin is $3,000, so a 10 cent or 15 cent increase in cotton prices, a conservative estimate, is worth as much as a 300 percent profit.

Most of those who profit from increases in the interest rates and distortions in the petrochemical markets will not be libertarians or fiscal conservatives. In fact, they will have little ideology at all, but rather a knack and will for quick entrepeneurial effort. The opportunity will be there, however, for those who wish to leave the world of gold, silver and Swiss francs and try their hands elsewhere. ◻

John Dublin is a professional speculator and author of the controversial book You Can Profit From the Coming Mideast War.

Consider Swiss Franc Insurance

Jürg M. Lattmann

When we consider placing a portion of our savings in Swiss francs, the first place we think of is one of the famous Swiss banks. And famous they are.

For generations, individuals around the world have sought financial refuge in Swiss banks. Not only do they specialize in the world's strongest currency, but they can handle nearly any financial transaction you might want. Their services range from classical commercial and merchant banking to the purchase and sale of various world currencies, stocks, bonds, and precious metals. With their fiscal accumen and conservative financial management, they have risen to preeminence among world-banking institutions.

A problem arises, however, if you are interested in long-term Swiss franc savings and interest accumulation. Banks in Switzerland offer unfortunately low interest rates and, at some deposit levels, no interest—or worse—negative interest rates. What interest is paid to nonresidents is subject to a 35 percent withholding tax. For this reason, Swiss bank accounts are most attractive for short-term savings (one to five years) or where interest return is not a consideration.

Switzerland maintains double taxation treaties with most European and North American countries. The effect of these treaties is to allow you to recover a portion of the 35 percent

TABLE 1: NET INTEREST IN A SWISS BANK ACCOUNT

		Gross Interest							
		3%		4%		5%		6%	
Deposits	Resident of	Double taxation treaty benefits available		Double taxation treaty benefits available		Double taxation treaty benefits available		Double taxation treaty benefits available	
		YES	NO	YES	NO	YES	NO	YES	NO
up to SwF 20,000	USA	2.85	1.95	3.8	2.6	4.75	3.25	5.7	3.9
	Canada	1.95	1.95	2.6	2.6	3.25	3.25	3.9	3.9
	Australia	1.95	1.95	2.6	2.6	3.25	3.25	3.9	3.9
	South Africa	1.95	1.95	2.6	2.6	3.25	3.25	3.9	3.9
	France	2.7	1.95	3.6	2.6	4.5	3.25	5.4	3.9
	Germany	3.0	1.95	4.0	2.6	5.0	3.25	6.0	3.9
	Great Britain	3.0	1.95	4.0	2.6	5.0	3.25	6.0	3.9
	Italy*	1.95	1.95	2.6	2.6	3.25	3.25	3.9	3.9
	Netherlands	2.85	1.95	3.8	2.6	4.75	3.25	5.7	3.9
from SwF 20,000 to 99,999	all countries	NO INTEREST							
exceeding SwF 100,000	all countries	40% NEGATIVE INTEREST TAX							

*Agreement about to be concluded.

Swiss withholding tax when you report your bank interest to your governmental tax authority. This tax relief can be expensive, however, in that your country's own tax rate on interest may exceed 35 percent.

Table 1 shows the net interest rate you can earn on various Swiss bank accounts. For each gross interest rate, two net interest rates are shown, the difference depending upon whether you are able to claim relief under a double taxation treaty. For those receiving such relief, the net interest rate shown assumes that you are paying no tax on the interest to your country's tax authority.

Obviously, the interest rate of return on bank accounts is generally unappealingly low. This is especially true when we realize that it is hard to obtain a *gross* interest rate in a Swiss bank above 4 percent without severe withdrawal restrictions.

There is now available an alternative to the low net rate of interest available on Swiss bank account deposits. This alternative has been described by one international financial commentator as the "Swiss insurance account."

What this involves is placing money on deposit in Switzerland in one of the annuity or endowment contracts offered by the Swiss life insurance companies. Because of the excellent interest return available, these contracts have become very popular. They offer the same privacy as Swiss banks, but with the added attraction of being *totally exempt* from withholding taxes and negative interest limitations as long as the owner is not a resident of Switzerland.

The following comparison shows the rates of returns available in a 4½ percent Swiss bank account and a Swiss "endowment account." In both accounts a male, aged 45, deposits 100,000 Swiss francs at the beginning, with the goal of saving until age 65. Depending upon his country of residence, the results unfold as shown in Table 2.

As we can see, our Mr. 45 does quite well in the endowment account. In addition, with the endowment account he has the option at age 65 to take a life income of SwF 22,567 per year. And besides the attractive maturity value, his family receives immediate protection in the event of his death before age 65—added security in these troubled times.

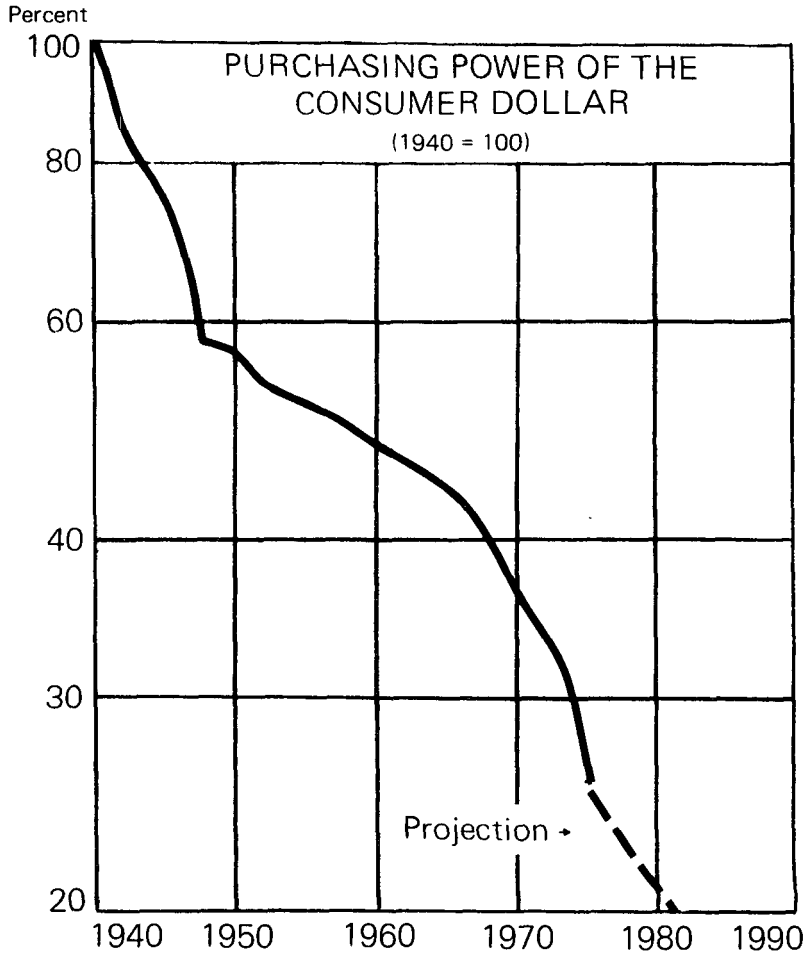
As mentioned previously, all Swiss insurance companies and brokerage houses are covered by confidentiality laws that make it a crime punishable

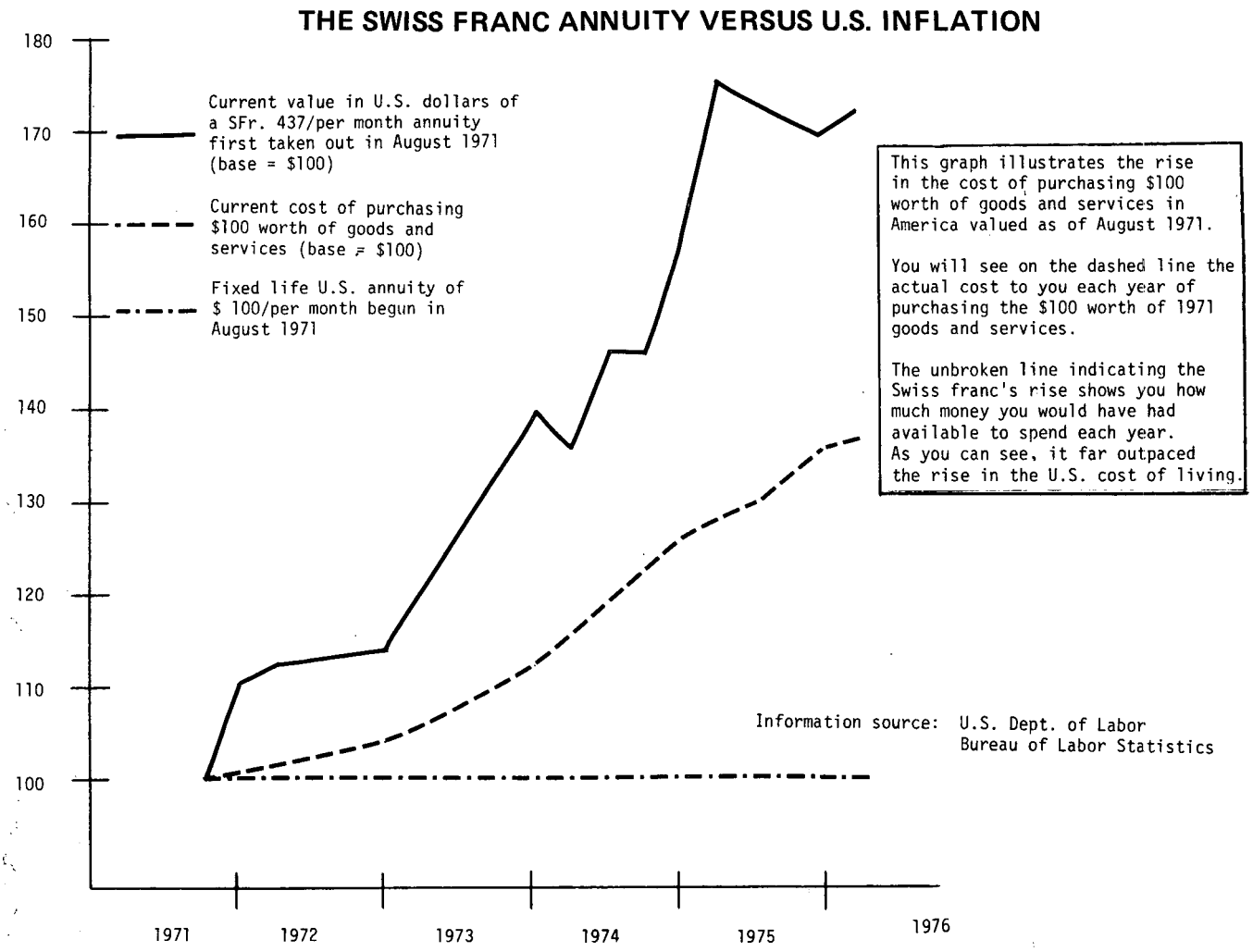
TABLE 2: COMPARATIVE RETURNS

Resident of	Bank Account		Endowment Account
	Double taxation treaty benefits available		
	YES	NO	
USA	SwF 229,900	SwF 178,000	SwF 252,107
Canada	178,000	178,000	252,107
Australia	178,000	178,000	252,107
South Africa	178,000	178,000	252,107
France	219,200	178,000	252,107
Germany	241,200	178,000	252,107
Great Britain	241,200	178,000	252,107
Italy	178,000	178,000	252,107
The Netherlands	229,900	178,000	252,107

NOTE: Domestic taxes not accounted for.

PURCHASING POWER OF THE US DOLLAR SINCE 1940




THE SWISS FRANC ANNUITY VERSUS U.S. INFLATION
180
170
160
150
140
130
120
110
100
Current value in U.S. dollars of a SFr. 437/per month annuity first taken out in August 1971 (base = $100)
Current cost of purchasing $100 worth of goods and services (base = $100)
Fixed life U.S. annuity of $ 100/per month begun in August 1971
This graph illustrates the rise in the cost of purchasing $100 worth of goods and services in America valued as of August 1971.
You will see on the dashed line the actual cost to you each year of purchasing the $100 worth of 1971 goods and services.
The unbroken line indicating the Swiss franc's rise shows you how much money you would have had available to spend each year. As you can see, it far outpaced the rise in the U.S. cost of living.
Information source: U.S. Dept. of Labor Bureau of Labor Statistics
1971
1972
1973
1974
1975
1976

by fines and imprisonment to reveal anything about any client to anyone.

An annuity is a life income paid by an insurance company. You give the insurance company a sum of money, and they pay you an income for as long as you live. A Swiss franc annuity pays the life income in Swiss francs.

It is becoming more and more clear that at retirement we need an increasing life income. At a 6 percent inflation rate, the value of a fixed life income (such as from bonds and pension or profit-sharing plans) will be reduced by half within 11 years. At a 10 percent inflation rate, it only takes 6½ years for the value to drop 50 percent.

Since Swiss annuities have their payments denominated in Swiss francs, they have provided an increasing life income as the Swiss franc has appreciated in value relative to the world's major currencies. For example, in 1970 an individual purchased a single premium immediate annuity. At his age, his premium gave him an annual life income, when converted to U.S. dollars, of $10,000. Since then, his income has grown as follows:

June 1, 1971	$10,556
June 1, 1972	$11,287
June 1, 1973	$14,118
June 1, 1974	$14,644
June 1, 1975	$17,472
June 1, 1976	$17,814

If we compare this rising life income with the rise in the U.S. cost of living, we can see that the Swiss franc annuity more than preserved purchasing power.

Now there are two new booklets available that explore this subject in great detail, covering some interesting developments in the area. Both are authored by the Swiss financial consultant Jean-Pierre Bernard and published by Librex Publishing (Zurich).

The Swiss Protection—An Insured Refuge for Your Future Purchasing Power is the most comprehensive of the two books. In its first chapters it gives a simplified account of economic history up to the present and shows how the Western world has gotten itself into the fiscal problems it has today. The book then goes on to give a complete, yet nontechnical, easy-to-understand description of all the Swiss franc life insurance, endowment, and annuity products available.

How To Hedge Inflation with the New Swiss Franc Contracts is a shorter book. It is solely geared toward endowments and annuities, emphasizing how they can be used to outperform Swiss banks. This booklet is also geared toward Europeans and gives its examples relative to a number of major world currencies. As he does in the other book, Mr. Bernard in this booklet carries the reader through all the steps of the inquiry to the contract acquisition process.

Both books are recommended for anyone interested in the subject of Swiss franc insurance products. [r]

Jürg Lattmann is a graduate of Zurich State College of Economics. Formerly with Geneva Life Insurance Co., he founded Assurex, S.A. in 1975 and has been its president ever since.

SINCE OCTOBER 1976: 92% TO 259% PROFITS

TRADING GOLD PROFITABLY

A comprehensive statistical analysis of the gold market. Author has used more than $100,000 of computer time studying gold, silver and other markets. Methods presented perform extremely well in both Bull and Bear gold markets. While many people lost their shirts in the 1975-6 gold collapse, methods you can use from TRADING GOLD PROFITABLY made from 214% to 469%. TGP is easy to read. More than 50 charts and 75 tables for clarity.

Results of Recommended Methods

1973-4 Bull Market in Gold

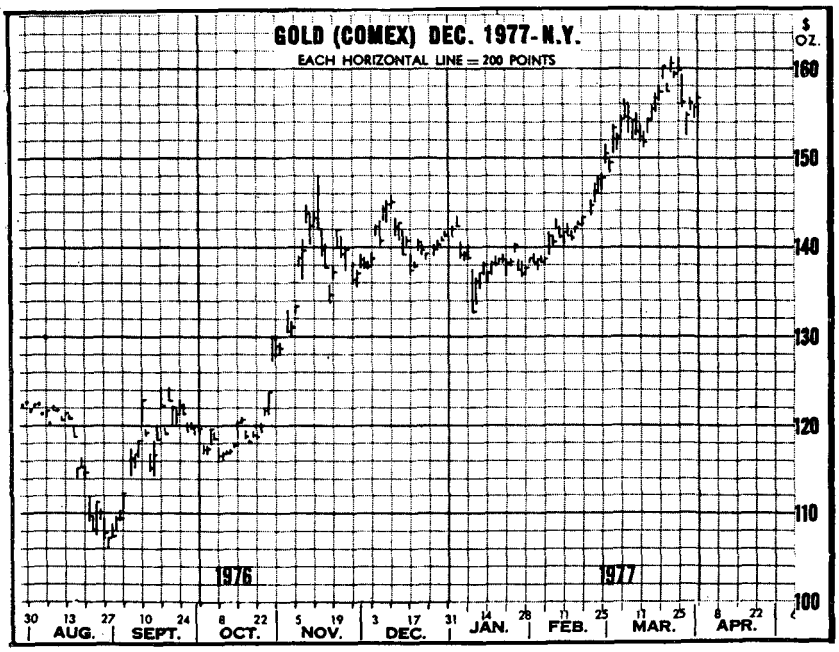
Method	Trades	Profit on Invested Capital
1	16	+423%
2	10	+576%
3	8	+586%
4	8	+542%
5	8	+528%

1975-6 Bear Market in Gold

1	14	+469%
2	12	+399%
3	12	+327%
4	12	+235%
5	12	+214%

Since October 1976 A New Bull Market

1	+ 92%
2	+178%
3	+163%
4	+259%
5	+257%



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COMMODITY OPTIONS: A NEW OPPORTUNITY

Steven Wolf

A relatively new investment vehicle has been approved by the Commodity Futures Trading Commission. The public will soon be able to trade in commodity options written on futures contracts traded on commodity exchanges. Although commodity options have been offered in the United States in the past several years, the underwriters were always undercapitalized and went bankrupt. Currently Americans can buy commodity options in London, but their prices are very high, going through at least two middlemen before the investor receives the offer. In addition, London commodity options have several deleterious features that will be mentioned shortly.

A commodity option is the right to buy or sell a futures contract, at a price specified in the option agreement, during a certain period of time known as the life of the option. In exchange for this right the purchaser pays a premium, or right, to the seller of the option. American commodity options will be traded similarly to stock options on the Chicago Board of Trade Options Exchange. Trading is scheduled to commence in July 1977, although a delay of one or two months would not be surprising. All options will be guaranteed by the exchange clearing houses, and the sellers will have to provide adequate margin daily. The pilot program will include option trading in silver and gold futures, as well as in copper, coffee, cocoa, sugar, and perhaps one or two other commodities.

American commodity options will have distinct advantages over London options. They will have an active secondary market. Unlike London options, in which each option sold has a different striking price (price at which the purchaser can buy the futures contract) and a different expiration date, American options will have standard striking prices and identical expiration dates. All calls (the right to buy a futures contract at a specified price—the striking price—any time between the date of purchase and expiration of the futures contract) purchased on December gold, for example, will expire on the same day in December. Instead of each striking price being determined at the moment of purchase, there will be active trading in a few standard striking prices. For example, if December gold is trading at $140 per ounce, there may be striking prices for December gold calls at $130, $135, $140, $145, and $150. Thus any $150 call on December gold will be a standard product, the same as hundreds or thousands of other calls written on December gold at $150. Because of this, there will be an active market for December gold calls at $150. Your investment will be liquid.

With London options, once the premium is paid your money is tied up until the option expires. If you change your mind about the investment, there is no way to liquidate the option. Even if you profitably exercise the option, your money is held until the option expires—perhaps several months later. In the American commodity option market, selling your option at any time will be as easy as calling your broker and placing a sell order. The price of purchase or sale will be determined by the auction bidding at any given moment. Importantly, and in contrast to London options, your option will not have to reach the striking price to have a value. If the price moves adversely, instead of losing the entire premium, your loss will be only a portion of the premium, as it can be resold to someone else at a lower price than the price at which you purchased it.

Commodity options can be used in a variety of ways. The basic purpose of a call is to profit, with limited risk, from an expected bullish price move. The price you pay for the option is the extent of your liability. If the price declines, you will face no margin calls or forced liquidations. You merely resell the option or permit it to expire. If the price moves favorably, you resell the option at a higher price and take your profit.

With the purchase of a call option you need only be concerned with the long-run price movement and can disregard the short-term fluctuations that in other investments require constant attention. With a long futures market position, a one- or two-day price decline can force your position into liquidation. Even if you were ultimately correct, with the price subsequently moving upward dramatically, you may no longer be in the market. But with a call position, once you've payed the premium, there will be no margin calls or liquidations. If you believe that silver, over the next several months, will rise to $5.50 per ounce, and the price is now $4.50 per ounce, a temporary price decline to $4.25 will not affect your position. As long as your ultimate forecast is correct, you will profit. Commodity options are the proper instrument for investors who cannot devote all their time to the market, who cannot constantly place additional margin into their account with every temporary decline, but who have strong convictions about the ultimate movement of prices.

Let us give an example of the purchase of a gold call. The call is written on a 100-ounce contract traded on Commodity Exchange, Inc., in New York (you can purchase it through any commodity broker, for a commission of between $50 and $75, negotiable). Let us say December gold is trading at $140 per ounce (December gold is gold deliverable in December), and you expect that between now and late December, when the contract expires, gold will experience a large price in-

crease.

If you choose to buy a December gold call with a striking price of $145, you are buying the right to purchase a futures contract (for December delivery of gold at $145) anytime between the time of purchase and the expiration of December gold. For this right you pay a premium, or price. The price of the option would be something like $7.40 per ounce, or $740 for the 100-ounce contract. If the price of gold for December delivery rises, the value of your call will increase. If gold declines, the value of your option declines. The value is determined in the open market, in active trading, by bidding among potential buyers and offering among potential sellers.

If the price of gold shortly increased to $155, your call would have a higher value. The value would be at least $10 per ounce, because any purchaser of the $145 striking price call could purchase the call, exercise it, receive a futures contract at $145, and sell it at $155 in the futures market.

Commodity options are for investors who cannot devote all their time to the market.

But the value would in fact be higher than this, just as it had the $7.40 per ounce speculative value when you bought it. Its speculative value would also have increased because, as prices rise, option buyers become more optimistic. Its price would include the intrinsic value of $10 per ounce plus an increased speculative value of something like $8.50 per ounce, leaving a total price of $18.50 per ounce. If you sold the call then, you would have a profit of $1,850 less $740, or $1,110, an increase of over 100 percent. Calls are as leveraged as futures contracts themselves. Unlike with futures contracts, however, you can never lose *more* than you invest, for no matter how low the price of gold falls, the call can never be worth less than zero.

Although this explanation is brief, the reader can easily find detailed information on options trading from several books written on the subject or through his brokerage firm. ◻

Stephen Wolf lives in New York and is in the business of trading commodities.

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U.S Silver Coins [per $1,000 face]

	Dec.1	Dec. 2	Dec. 3	Dec. 4	Dec. 5
Liberty Coin Service	2950	2965	2920	2910	2905
Bramble's Coins	3150	3150	3125	n/a	3100
Numisco	2976	3002	2945	2966	2930
International Precious Metals Corp	3222	3193	3167	3167	3130

Austrian 100 Coronas [price for 20 coins]

Liberty Coin Service	2820	2849	2815	2830	2830
Bramble's Coins	2890	2920	2930	n/a	2880
Numisco	2853	2884	2863	2873	2853
International Precious Metals Corp	3063	3100	3040	3084	3063

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AVOIDING COIN INVESTMENT PITFALLS

R. W. Bradford

ITEM: Some time ago I received in the mail a brochure suggesting that I buy as an investment a set of Choice Brilliant Uncirculated (BU) Roosevelt Silver dimes. The brochure, from a well-known firm, was nicely, even elegantly printed. It listed the reasons for investment in BU dimes: growing collector interest, good silver value, etc. All very sensible reasons. The brochure offered the set at $125.00.

That was the problem. At that time, a set of BU Silver Roosevelts wholesaled at about $55 to $60. The firm was asking *more than twice* the wholesale price! To break even on such an investment, one would have to wait for the price of such sets to double.

ITEM: Last summer I was consulted by an investigator for the Michigan Attorney General about a coin dealer who had been selling gold coins and silver bullion to local investors. The coin dealer had a long history of securities fraud before entering the coin business. The investigator showed me some invoices from the dealer, and wanted to know the wholesale price of the various coins on the date in question. I checked my records. The result: the firm had been charging from 64 to 112 percent markups on common bullion items! The transactions involved literally thousands of dollars. In some cases over half of the investment was profit to the firm.

ITEM: In 1973, a large gold and silver coin dealer in the Southwest went bankrupt. At the time, the firm owed its customers thousands of dollars worth of coins. The customers have not been paid; the firm's president has fled the country.

ITEM: A well-known dealer boasted in private, "My customers trust me. If I told them that silver sells for $7,000 per bag, they'd still buy from me and pay me that price."

ITEM: On March 23, 1976, word went out on one of the national coin dealer teletype dealer networks that a very large gold and silver retailer from Texas was no longer doing business and that there was "reason to believe it may be in receivership." Their customers were left holding the bag.

ITEM: During the first three months of 1977, three more precious metals firms have apparently gone bankrupt. All three had advertised heavily in the nation's financial press; all had offered toll-free WATS line telephone service to their customers. And all went under with customer orders still pending, costing their clients thousands of dollars.

Investment in coins is practically an article of faith for most libertarians—both rare coins and bullion coin investments. A recent survey showed that 45.7 percent of REASON'S readers invest in gold or silver.

Precious metals and rare coins offer real advantages to the investor concerned with inflation. Unfortunately, through lack of understanding of the market and how it operates, many who invest in these markets fail to profit not because they make incorrect market prognostications, but because they invest with unreliable firms.

Precious metals and rare coins are somewhat esoteric investments. They require special knowledge. The markets for both are rather primitively

organized (at least when compared to the organized stock and commodity exchanges), consisting mostly of independent dealers. There is no readily available, easy comprehensible publication of price data on coins. As a consequence many investors pay substantially more for the *exact same* coin as other investors who have different dealers.

In addition, a number of dealers are unscrupulous, some bordering on outright fraud. Some dealers charge double (or even more) the wholesale price of investment coins, operating on the knowledge that their clientele will lack either the means or the inclination to compare prices.

Happily, the intelligent investor is not without hope. Operating with common sense and intelligence, the investor can enter the market with reasonable safety.

The precious metals market is not very complex or hard to understand. It consists of a substantial number of coin dealers around the country who buy and sell coins for a profit. The larger and more reliable firms are mostly members of one of two national teletype networks, over which they buy and sell gold and silver coin. Some are members of both. Most basically sell coins to their clients at a price somewhat over the wholesale cost. (The wholesale price is the price at which coins are available on a dealer-to-dealer basis.)

The markup is usually in the one to five percent range. Most reputable dealers can live and indeed prosper on this margin. But some dealers on the fringe of the precious metals business charge substantially higher commissions—in the range from 10 to 100 per-

Precious metals and rare coins are somewhat esoteric — they require special knowledge.

cent or more. These firms are usually not members of the national teletype circuits: they buy their coins from dealers who are members.

The reason that firms changing such high prices are not driven from business by their competition is simple: many investors do not comparison shop *at all*. Many are content to take their dealer at his word.

This is particularly true in cases where an ideological rapport has been established. Many dealers publish newsletters, or market letters, which offer advice on buying coins. This advice is often couched in libertarian terminology, which serves to establish a bond of trust between the client and the firm.

The way to protect yourself against those with giant commissions is simple and common-sensical: *comparison shop.* Call your local dealer for quotes. Call the dealers who advertise in various libertarian and conservative journals. Call the dealers who advertise in various coin magazines and coin newspapers.

Remember, phone calls for quotes are cheap. The 50 cents or less for each one-minute phone call is peanuts compared to the amount you can be over-charged. An extra five percent markup on a $1,000 deal is $50.

Talk to aquaintances who have purchased coins. Find out whom they recommend. Get as much information from as many sources as possible as you can.

Checking out the financial responsibility of a firm is somewhat more difficult. Bank references are helpful, but their value is limited. But check them out. Call the bank and talk to an officer familiar with the firm.

One good indicator of the financial ability of a firm is its delivery time. Firms that are on the brink of failure tend to make slow deliveries. By delivering slowly, the firm can use one customer's money to finance the purchase of coins for another customer. In this manner it can stave off bankruptcy for a little while.

There are occasions when even a reliable dealer will not have immediate delivery on all the coins he offers. Perhaps the internationally available supply of a given coin is temporarily depleted. But any reputable dealer should be able to offer immediate delivery of most gold and silver coins. If he says delivery of Krugerrands is slow, ask about delivery time on other coins, perhaps Austrian 100 Corona or British Sovereigns or U.S. silver coins. *If delivery is not immediate on most coins, choose another dealer.* There is a good chance the dealer is not financially strong.

(When you ask about delivery, be sure to specify that you are willing to pay via bank draft or bank wire. It is normal business procedure for a dealer to refuse shipment until your personal check has cleared. It is usually wise to make payment via bank draft or wire for other reasons anyway; it is relatively more anonymous and much more expeditious.)

You might also ask his competitors. This is risky: there is always the strong chance that his competitor may give him a bad credit report in order to encourage you to do business with them instead.

Also observe how a firm operates. If its salesmen call you soliciting business it is likely that they are paid good commissions, which means the firm is quite expensive, and saddled with more overhead. See how widely they advertise: another sign of excessive overhead. (Widespread advertising should not be construed as a sign of credit-worthiness: the two large firms mentioned at the beginning of this article were both substantial national advertisers, and both advertised heavily right up to their bankruptcy.)

Two other points are important in selecting the right coin dealer. First, check out the dealer you choose from time to time. Some dealers change their pricing policy. Some have even been known to charge higher commissions to established clients, on the theory that established clients are less likely to comparison shop. Secondly, do not accept price quotes in advertisements without question. One large coin firm for some reason has put much lower prices in its ads in the *Wall Street Journal* than it actually quotes on the phone.

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Of course, I am not suggesting that price and financial responsibility should be the only criteria in choosing a dealer. If you believe that other factors are important—such as a nicely printed newsletter, or personal or ideological rapport—take them into consideration. But be sure to take the price/reliability factors into consideration as well.

Remember, the coins you get are the same regardless of dealer. A Krugerrand is a Krugerrand—whether you pay 150 or 15 or 1½ percent over the wholesale price for it. A bag of silver is a bag of silver—whether it costs you $3,000 or $4,000.

And all it takes to establish a precious metals business is a mailing address, a telephone, and a few dollars for the printing of business cards, letterheads and newsletters. And that's all some firms have.

Rare coins are becoming an increasingly popular investment among libertarians. The major factor in their increasing popularity is the extremely heavy promotion of them as investments. The reason for this heavy promotion is not hard to fathom: the typical markup in rare coins is much higher than that on bullion type coins. Typical dealer mark-up on rare coins is at least 20 percent. But many dealers mark up coins much, much more—often as much as 100 percent or more.

Dealer margin on rare coins is higher than on bullion coins simply because dealing in rare coins requires more work and more knowledge than dealing in bullion coins. The purchase of gold or silver for resale by the dealers is no more difficult than picking up the telephone or putting a message on telex or teletype. But the purchase and sale of rare coins requires considerable expertise. The dealer must be able to grade, authenticate, and accurately describe and attribute the coin. He must build up contacts, often at great expense and over a number of years.

All it takes to establish a precious metals business is a mailing address, a telephone, and a few dollars — and that's all some firms have.

Unfortunately, there are firms who find shortcuts. They mark up coins remarkably, often over 100 percent. While they describe the coins they sell as "rarities", most of the coins are actually quite common. Like their cousins in the bullion business, they are dependent on the credulity of their clientele.

Traditionally, the quick-buck artist in the rare coin business has made his money by misrepresenting the grade of his coins. If a coin of a given date and denomination sells for $200 in fine condition and $350 in very fine, the unscrupulous dealer simply buys a fine coin and sells it as a very fine, pocketing the difference.

There are dealers who openly advertise on the teletype circuits that they want to buy Choice About Uncirculated (or "slider") coins, and who advertise in coin publications the same coins as "Brilliant Uncirculated at discount prices."

But over the past few years, the problem of over-grading has become so widely known that dealers have developed a new tack: overpricing. They simply price coins at two or three times the value of the coins. One firm typically sells its customers Extremely Fine large cents at $50. Wholesale value is only $25. The firm selling the BU Roosevelt dime set mentioned above is another example.

Firms systematically overpricing their coins often offer special evidence of their honesty: a guarantee of correct grading. But the guarantee protects the investor only against overgrading, leaving him wide open to overpricing.

(Of course, I am not suggesting that a markup of 100 percent or so is immoral or should be illegal. I am only suggesting that such a markup takes the item out of the category of investments. If one's breakeven point on an investment is double the current market, it ceases to be an investment.)

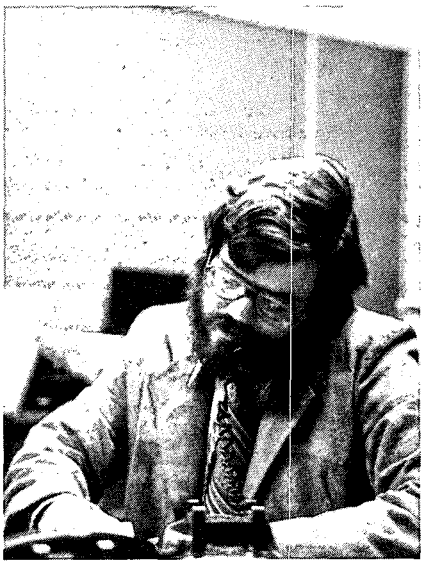
Unfortunately, there is no simple way to determine whether you are being overcharged. For the most part, the rare coin market is specialized to the point that not many people know the market value of a given coin.

To invest wisely in rare coins (this goes for rare stamps also) one must either have explicit trust in an advisor (a dangerous process) or know the market. But do not put much hope in finding an expert advisor whom you can trust. It is theoretically possible that someone could help you with his expertise and then sell you coins at reasonable prices—but it would certainly be unusual. The normal pattern is for the dealer to impress you with his knowledge, sound you out to see just how knowledgeable you are, and then charge you prices commensurate with your trust of him and his estimation of your degree of ignorance.

The only real protection for the investor in rare coins is to get to know the market. Get to know the values of various rare coins. Subscribe to and read auction catalogs and lists of prices realized. Subscribe to and read numismatic periodicals. Attend major coin conventions and get to know the major dealers in the type of coin that interests you. Read what scholarly works are available on the coins you invest in.

If all this sounds like a lot of work, remember—it is. You are not going to get a free ride or sure investment in rare coins. Unless you are willing to work at it, you will very likely just be another sucker who gets burned. *Do not invest in rare coins unless you are willing to invest the time necessary to learn about the coins in which you invest.*

Investing in rare coins and precious metals does offer a good means of hedging against inflation. Under the right circumstances it can be very profitable. Precious metals also offer security to those concerned with the possibility of social or political collapse. Rare coins can offer esthetic pleasures as well. But like all human activities, what one gets out of coin investing is proportional to what one puts into it.



R. W. Bradford holds an A.B. in philosophy from Grand Valley State College and is proprietor of Liberty Coin Service in Lansing, Michigan.

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SRO-4

MAKING THE MOST OF YOUR SWISS BANK ACCOUNT

Harry Browne

For many people, privacy means more than the secrecy with which a Swiss bank will treat their accounts. At seminars, in consultations and in letters, I've been asked many questions about sending and receiving money secretly and about accounting to others for money that's been secretly shipped to Switzerland.

Such questions are difficult tc answer when I don't know what the questioner's objectives are. Actually, there are many different levels of secrecy—some legal and some illegal.

Surprisingly, very few people with whom I've discussed secrecy ever define their own objectives. Consequently, they're in no position to determine the lengths to which they'll go to maintain their privacy.

Most likely, your situation is one of the following:

1. You have no interest in evading taxes or in hiding anything from the government or anyone else. However, you have decided it would be useful to have a Swiss bank account—possibly to facilitate trading in foreign markets or in foreign currencies, or possibly because you think it's prudent to keep part of your assets outside the country in which you live. *Or . . .*

2. You don't want to break laws or evade taxes, but you *would* like to keep your affairs as private as possible. You're willing to report all your financial affairs to the government if it so requires, but not to anyone else. It may be that you want to shield your business from creditors, friends, business associates or relatives. *Or . . .*

3. You don't want to evade taxes because that could get you into a lot of trouble, and so you report all your income. But you also don't want the government or anyone else to know what you're doing, because you don't know what the future will bring. I've found that most Swiss bank customers are in this category. *Or . . .*

4. You don't want to evade taxes but you *do* evade them—simply because you can't report all your taxable income without disclosing other information you want to keep private. (There are ways of getting out of this category and safely into category number three, and they will be discussed in this article.) *Or . . .*

5. You are a tax-evader by intention—and hope to hide a lot of money or to make a lot of money through your Swiss bank account, none of which will ever be reported to the government.

There is an additional characteristic to consider that may apply to anyone. That characteristic is the desire to *avoid* taxes—as opposed to evading them.

Tax avoidance is the use of legal methods to reduce your tax bill. It can involve such straightforward measures as simply making sure you've included every possible deduction on your tax return. Or it can involve such sophisticated methods as establishing an offshore trust.

On the other hand, tax *evasion* is the use of illegal methods to escape taxes. It includes such things as failing to report income you've earned or making fictitious deductions from your income.

Almost everyone will gladly use any method of tax avoidance handed to him (although I'm always surprised to find how little effort most individuals make toward discovering such methods). At the same time, most people aren't willing to accept the risks involved in tax evasion. A Swiss bank account doesn't of itself provide an avenue for tax avoidance. Any profits or income earned in Switzerland are as subject to U.S. taxes as if they were earned at home.

First, we should identify those laws

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that pertain to Swiss bank investments. In summary, they are:

1. You must report as ordinary income, for the year you receive them, any interest or dividends produced by any investment held anywhere in the world.

2. Whenever an investment is sold (or traded for something else), you must report any profit. Again, this applies to investments anywhere in the world.

3. With your income tax return, you must file IRS Form 4683 if, during the year, you had a financial interest in any foreign bank account, securities account or "other financial account." You must file this form even if you only had signature authority over an account belonging to someone else. You must keep available for five years all records pertaining to foreign accounts.

4. Anytime you send or carry more than $5,000 in cash or bearer-type monetary instruments out of the country, you must file Form 4790 with a Customs official on the way out.

5. Anytime you receive from outside the United States, or bring into the United States yourself, more than $5,000 in cash or bearer-type monetary instruments, you must file Form 4790 with the Bureau of Customs. If you carry the money in, you must file the report immediately. If it is shipped to you, you must file the report within 30 days.

6. Anytime you withdraw more than $10,000 in currency from a U.S. bank or similar financial institution, *it* must record your identity and send a report to the IRS within 45 days.

7. U.S. banks are required to obtain taxpayer identification numbers or social security numbers from all depositors.

8. All financial institutions are required to retain for five years the originals or copies of:

(a) records of loans exceeding $5,000, except mortgages;

(b) all records and instructions concerning transfers of over $10,000 into or out of the U.S. —including transfers to other financial institutions within the United States that are instructed to transfer the money out of the United States.

9. U.S. banks are required to retain for five years the originals or copies of:

(a) signature cards, statements, ledger cards and debit items for all accounts;

(b) all checks, drafts and money orders drawn on the bank—except for checks written by certain categories of customers who write a large volume of checks.

(c) all records concerning transactions of over $10,000 going out of or coming into the United States.

(d) whatever records are needed to construct the activity of a checking account for the most recent two years.

10. Securities brokers and dealers are required to keep substantially the same records required of banks.

The penalties for violations by banks and other financial institutions aren't important for our purposes here. The maximum civil penalty if *you* fail to report currency transported into or out of the United States is the value of the currency. If you're caught exporting currency on the sly, the money can be confiscated; some or all of it might be returned to you. The same applies if you bring in more than $5,000. If it's discovered later, you can be fined up to the amount of the currency involved. The same penalty applies if you file the report but make a significant misstatement or omission.

Despite the laws, it is possible to transmit money to Switzerland both privately and legally.

If it can be proven that you *knowingly* made false statements in any currency report filed or in the foreign bank account section of your income tax return, it becomes a criminal matter. And you can be fined up to an additional $10,000 and imprisoned for up to five years—or both.

Also, if you violate any part of the reporting law to aid in a violation of some other Federal law, you can be fined up to $500,000 or be imprisoned for up to five years—or both. This is also the case if you violate any part of the reporting law as part of a series of illegal activities involving transactions exceeding $100,000 in any 12-month period.

If privacy isn't important to you, transmitting money overseas is simple. Just use one of the methods described in my book—probably a cashier's check or bank wire.

Sending money abroad *with* privacy is another matter. Despite the laws, it is possible to transmit money to Switzerland both privately and legally. However, the wealthier you are, the more difficult the job becomes.

Money orders are both silent and legal, but they are convenient only for sending modest amounts. You can buy a money order for up to $500 at a bank without giving your name or the name of the payee. After you acquire the money order, write in the name of the Swiss bank and mail it, together with a letter specifying the account to which it is to be deposited. Your name shouldn't appear on the money order.

When the money order is processed by the Swiss bank, it will eventually come back to the bank where it was issued. It will have the Swiss bank's name on it, but no record of the purchaser. You can also avoid putting the bank's name on the envelope—by using the name of your bank contact and the bank's postal box address.

To protect against loss of the money order, you can register the letter when you send it. You'll have to give your name (or some other name) to register the letter, but no one will know its contents. If the letter is actually lost, the registration may help recover it. If it's irretrievably lost, you won't be compensated for the money order (unless it's insured, which requires disclosing its contents in advance).

For deposits over $500, you can buy several money orders and put them in the same envelope. There's no legal limit to the amount you can send at any one time—as long as the money orders are payable to a specific bank and not to "cash."

You can also buy money orders, up to $300 apiece, at the post office, and money orders up to $199 at drugstores and supermarkets.

To preserve your anonymity, you'll have to purchase the money orders with cash. And you should accumulate the cash in small amounts to avoid calling attention to yourself. U.S. banks aren't required to keep a record of any withdrawal that seems unusually large. In general, any withdrawal of under $1,000 won't call attention to you; and you could make larger withdrawals if you have already been doing so for other reasons.

Money orders are available for cash from so many different sources that it isn't difficult to follow these three rules:

1. Buy money orders only where you aren't known and where you

don't transact other business.

2. Don't buy money orders frequently from the same place.

3. Don't buy more than two or three money orders at one time from one source.

A bank clerk may ask where the money order will be sent or where it will be cashed. This is a routine question, asked for the convenience of the person receiving the money order. If you say the money is going to Europe, the bank will issue a money order drawn on a European bank—so that it can be cashed more quickly and easily. You may not want to specify Switzerland, but a money order going to Europe shouldn't raise any eyebrows. If you choose, you can specify New York; at the most, you'll lose only a few value days on the deposit while the money order goes through channels.

Cashier's checks can be used for larger amounts, but your signature is required. If you buy the check for cash, you probably won't be asked for identification, so you can use any name you choose. However, using a fictitious name would make it very difficult for you to stop payment and replace the check if it's lost. And if the purpose of the fictitious name is to cover an evasion of the law, you would be signing a confession that someone might find. Also, the Swiss bank may be unwilling to deposit to your account a check that was apparently purchased by someone else.

It is legal to send any amount by cashier's check and not report it (so long as it isn't made payable to "cash"). But it isn't as private as a money order—which can be purchased only in denominations of $500 or less.

Another private and legal method of sending up to $5,000 is to take the money in cash to Canada or Mexico and wire it from a bank there to your Swiss bank. You can take only $5,000 per trip (without reporting it), but you can make as many trips as you want. Any Canadian or Mexican bank can wire the money to your Swiss bank.

It's also possible to carry the cash all the way to Switzerland. However, there are two main drawbacks to this. One is the danger that the money will be stolen and that the owner will be killed in the process. The other is the $5,000 limitation. If you take more than that without reporting it, you're breaking the law; if you take less, you're spending a lot of money to transmit a little.

Rather than carry cash all the way to Switzerland, it makes more sense to take it to Canada or Mexico and wire it from there. The transmission will be on record at the bank you use, but it won't, as a matter of course, be reported to the U.S. government.

If you aren't hiding your business from the government but want privacy from everyone else, there are a few ideas to consider. You can, of course, use all the methods of transmission already discussed. They are both private and legal. You can also transfer larger sums legally and still maintain privacy from everyone but the government.

For example, you can send any amount of money by cashier's check or bank wire. To keep it private, it's best to buy a cashier's check at a bank where you don't normally do business. Have the check made payable to yourself and endorse it on the back, "Pay to the order of [name of Swiss bank]," and sign your name. The bank clerk who sells you the check will have no knowledge of its destination. When the check is processed and ultimately returns to the bank where it was purchased, it will show its Swiss destination but probably won't be noticed.

When you purchase the check, you can pay for it with cash. If you don't want to carry the cash from your own bank to the bank where the check will be purchased, you can buy a cashier's check at your own bank, made payable to yourself, and endorse it at the bank where you'll purchase the check that is going to Switzerland.

These methods will most likely thwart anyone prying into your affairs. If he gains access to your records at your local bank, he still won't know that you sent money to Switzerland.

If you do decide to evade the law, you should define, for your own benefit, what law you're willing to evade. Do you want privacy so that you can evade taxes—or do you want privacy only as a precaution against future intrusions by the government?

If you don't intend to evade taxes, the legal risks you run are certainly smaller. Your crime will be the failure to include data on your income tax return that has no bearing on your tax liability. If discovered, it's unlikely that you'll ever be convicted for it—unless the government wants to punish you for something else.

But to keep the stakes this small, you must be careful and thorough. Report all income accurately and make certain that you don't receive any income from your Swiss account. That way you won't be evading any taxes.

With this no-income approach, you would restrict your investments to those that offer price appreciation, rather than interest and dividends. Of course, someday you'll sell those investments. If they are sold at a loss and not reported, the IRS is unlikely to prosecute you for evading a possible tax refund. If they are sold at a profit, the gains will be taxable. But the sale may be many years away. And, by that time, it may be clearer what (whether good or ill) to expect from your government.

Tax rates may be so high that evasion is necessary for mere survival. Or you may have decided that you're going to look for a freer country to live in (which wouldn't eliminate your tax liability, but might make it harder to collect). Or, by then, your homeland might have become a better place to live. Tax rates might be lower; and legal restrictions might be aimed at the government, rather than at you. In that case, you would be willing to report your holdings and pay your taxes.

Whatever happens, privacy buys you the time to wait and see before making a final decision. This is its principal benefit in a turbulent world. The person who exposes all his holdings

If your unreported bank account is discovered, it is unlikely you'll be convicted for it — unless they want to punish you for something else.

The person who exposes all his holdings has made an irrevocable decision — to depend on the benevolence of his government.

has made a decision that is almost wholly irrevocable. He has decided to depend upon the benevolence of his government.

On the other hand, the person who consciously and illegally evades taxes is usually making an irrevocable decision, too. He's betting on the failure of the present system or the expectation that he'll be fleeing his homeland someday—or else has confidence in some plan to repatriate his money quietly.

But the person who simply protects his privacy, while avoiding serious violations of the law, is buying time while the future unfolds. If he emigrates someday, he'll have money outside the country waiting for him. If he decides to stay, he can be a law-abiding citizen without very much to be embarrassed about.

If you decide to keep your affairs private from the government, whether or not you evade taxes, there are a number of things to consider.

For one thing, you really shouldn't trust anyone within the United States with your secrets. Secrets always seem to be revealed, intentionally or unintentionally, innocently or maliciously. A secret, because it is a secret, is too interesting to keep to oneself. And no one will have a greater interest than you in keeping it quiet. So you're much safer if no one else knows.

This creates the problem that you often have to lie to people you'd never lie to otherwise. You can't be sure your secret is safe from the government unless it's safe from everyone else, too. So you find yourself in a "tangled web." And it may not be worth it to you if you have to lie to your friends to succeed with the deception.

If you decide that you want deep secrecy, there's no catalog available to tell you how to get it. Such a catalog might be legally hazardous to publish—and the methods would be come relatively ineffective once they had been published.

The closest thing to a catalog is the book *Dirty Money* by Thurston Clarke and John Tigue, Jr. (Simon & Schuster, 1975). The authors worked in the U.S. attorney's investigation of the use of Swiss bank accounts by organized crime. The book is valuable for two reasons: (1) it shows what you're up against if you try to outfox the government; and (2) it does call attention to a few as-yet-unplugged loopholes.

Mostly, however, you'll have to use your own imagination and initiative. And you'll have to recognize the many countermeasures the government has available to snare you. If no one ever suspects you, those countermeasures may never be employed.

But it's foolish to assume you'll never be suspected. So imagine that the IRS has been tipped off to your activities. By whom? It could be anyone—perhaps someone who overheard a casual slip of the tongue, who in turn told someone else, who in turn would like to win an IRS informer's reward.

However it might happen, it can happen. So imagine it has. If you were the investigator, how would you go about proving the case? Try to imagine everything that might be done by a government that would spend $15,000 to catch $10,000 in taxes. If you can't create a plan that's foolproof, and if you can't rest easily with the thought of the risks, then don't proceed with any plan to cheat.

Any plan should certainly rule out communications between you and your Swiss bank. You should receive no mail from the bank—for anything can happen to a letter on its way to you. Cables are kept on file, and overseas telephone calls could be taped easily.

If you request it, most Swiss banks are willing to reroute your mail so that it doesn't come from Switzerland. But it still has to enter the United States to reach you—and, once in the country, it could fall open in the post office, in the mail carrier's hand, or in front of your neighbors.

It's best to set up your account in person or from somewhere outside the United States, choose long-term investments that require no supervision or communication, and then ignore your account. Keep no records.

There's another consideration that many people overlook. Suppose you manage to get a large sum of money into a Swiss bank privately. And you forgo all communication with the bank. It's still possible that someday you may be asked what happened to the money.

The IRS often undertakes a "net worth" audit to determine if a taxpayer has increased his wealth more than his tax returns show. The idea is to discover if the taxpayer has more money than he has reported earning. But the objective could easily be reversed—to see if the taxpayer has *less* wealth than he's known to have acquired. If so, what happened to the money?

If you make $25,000 per year and you somehow manage to sneak $10,000 to Switzerland, it's doubtful that anyone will ever notice. After all, anyone can squander $10,000 by gambling, high living or other non-deductible expenses.

But if you try to hide $100,000, it's not so easy to explain—even if your total assets are $1,000,000 or more. The IRS could run your last 20 tax returns through the computer and come up with a present net worth figure. If your visible net worth appears to be $100,000 less than that, you may be asked to explain the discrepancy.

There are many answers you can give, but they all raise more questions. You lost it in worthless investments? Why didn't you deduct the losses? You gave it away? To whom? Maybe you should have paid a gift tax. And so on. Even if your answers are good ones, you may earn the tax collector's continuing attention.

You would need to determine how much you could reasonably have spent in non-itemized expenses per year over the last several years—expenses you didn't actually incur—and set that as the limit you'll try to smuggle out of your U.S. accounts. But you'll have to do it without large withdrawals. In other words, you can't sell a $100,000 investment and then have that money suddenly disappear.

Some people have arranged to "lose" money in foreign investments. One tactic is to open two forward contracts in gold bullion—one buying gold

You have to assume that if the stakes are large enough, the IRS will check out every link in your chain.

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and the other selling gold short. You would also have a current account in which the security deposit is kept. Because the two contracts are hedged against each other, you'd need virtually no deposit—but, for window dressing, you'd put up the amount normally required for one contract.

When the price has moved sufficiently—up *or* down—you would close out the two contracts. The profit from the contract that gained from the price change would be transferred into an unreported account somewhere. The contract that lost would be paid for from the current account and reported on your income tax.

You would have a capital loss that could be applied against any reported capital gain. But the main purpose of reporting the loss is to establish that you don't have the money anymore; it has been lost. Notice, though, that deducting the loss makes you guilty of more than just seeking privacy; it makes you guilty of tax evasion.

Because you have to report all foreign accounts with your income tax return, you would have to determine prior to tax time which of the two contracts to report. So such a plan is best undertaken early in the year. That way you'll have almost a year for the price to move sufficiently in one direction or the other—before you have to decide which of the two contracts you'll report.

Obviously, such a plan should be executed only through personal visits to your bank.

There are people who establish a foreign corporation in a line of business they are familiar with and then arrange for the corporation to lose money. The corporation pays out large expenses, usually to other corporations owned less visibly by the same person. Skillfully done, this does not involve tax evasion.

There's another consideration involved in illegal plans to hide money. What will you do with the money once it's hidden? Obviously, you can't just bring it home one day and spend it—not without calling attention to it.

For some people, the object is simply to stash the money away while waiting to see what America's future will be. If the country continues downhill, they may decide to move elsewhere. But if things improve, they may want to bring the money home someday.

If you can't think of any tax-free way to do it, it's usually possible to bring the money home as new income. In other words, you claim to have earned it overseas and pay the current rate of income tax on it. This is an expensive maneuver, but it's better than going to jail. If you have a profession, you can take a trip to Europe for a couple of months, claim to have performed professional services and bring the money back with you. Or you can sell an asset to a fictitious European company that was established for the purpose.

The net result of this type of plan can be similar to that of a legal tax shelter, in that you don't pay taxes on any gains until you decide you want to spend the profits.

Whatever plan you come up with, you can assume that someone else has tried it before. And it's possible that *many* people have tried it—so many that the IRS has a way of detecting or frustrating it.

The risks are great. Neither the U.S. nor Canadian government looks benevolently on those who try to cheat it of its "due." In fact, they are among the most vengeful governments in matters of taxes.

You have to assume that if the stakes are large enough, the IRS will check out every link in your chain. And you won't be able to sleep very well if your story hinges on the reliability of people you hardly know.

For those who aren't sure where things are headed, an alternative is to have two Swiss accounts—one reported and the other unreported.

Establish one account using all tactics necessary to make it completely secret. Keep the transactions simple and infrequent, so that you won't need to receive correspondence from the bank and won't need to keep any records.

Open a second account with normal methods. Receive correspondence from the bank, transact whatever business you think will make your investments profitable. Report that account on your tax return.

Someday the U.S. government may prohibit Swiss bank accounts for Americans. If so, take your time about complying. Talk to an attorney to see in what way, and for how long, you can drag your feet before bringing the money home. You may be able to wait it out for years without risking criminal action. Before the time runs out, you may decide to pack up and get out—in which case you'll be grateful for both accounts.

If not, close the public account when you seem to have run out of time—and continue to ignore the secret account. The government's acts will have confirmed the secret account's importance. Any government that tells you where you're allowed to keep the money *you* have earned isn't to be entrusted with knowledge of that money's existence.

No one can tell you whether or not you should break the law. That's a complicated matter that ultimately comes back to your own personal considerations of duty, risks, rewards, nerves, financial position, public exposure and just plain feelings.

Anyone who tells you that you *must* obey the law is ridiculous. And anyone who tells you that you *ought* to break it is just as ridiculous. It isn't a matter for anyone but you to decide. No one else will face the consequences of your decision.

Please don't conclude that I'm urging you to break the law. Don't even assume that I'm subtly suggesting it. I'm not. You can get into trouble breaking the law. The risks involved are appropriate only for people who are desperate or unusually ambitious, and who can handle the risks emotionally.

And you shouldn't deliberately break any law without first determining the exact requirements of the law (state or Federal) and the penalties involved. ◻

Harry Browne is the author of several recent best-selling books on investment survival, the most recent of which is his Complete Guide to Swiss Banks.

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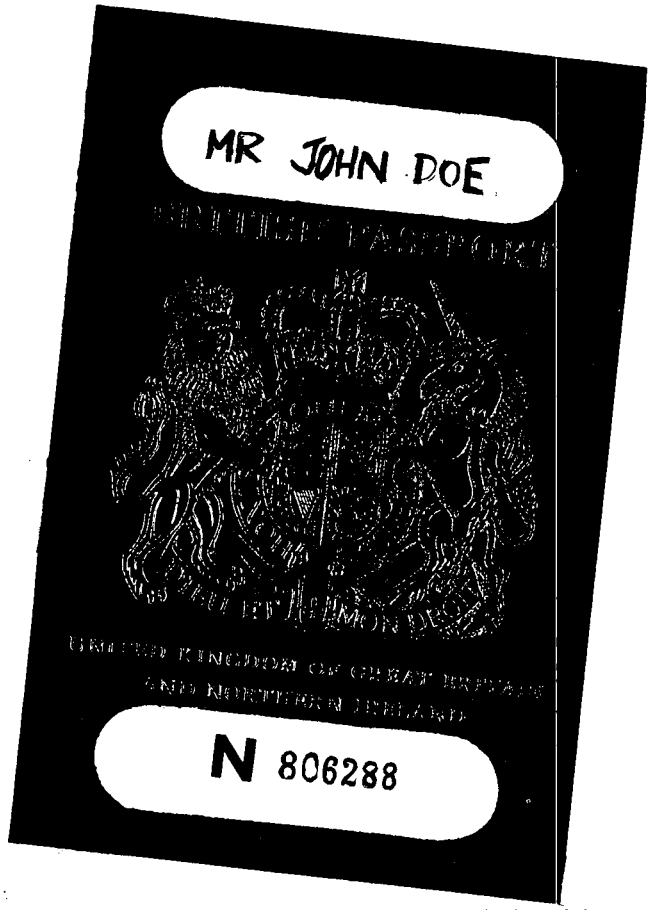
HOW TO OBTAIN A SECOND PASSPORT — AND WHY YOU MAY NEED ONE



Douglas R. Casey

Most people accept the passport as a legitimate, long-standing function of the State in its role as "protector" of its citizens. This may or may not be the case today, but the passport has a rather checkered history in facilitating the individual's freedom of travel, having been used more often to restrict than to enhance mobility.

In its earlier forms the passport served as a written request from the ruler of one state to safeguard the passage of subjects through another; it also identified the bearer as being entitled to the protection of his country's consular office. As such, passports clearly served a worthwhile function, but it was not long before they degenerated into an officially granted, or withheld, permit to leave one's native land.

Compulsory passports first developed in the 17th and 18th centuries in France and Germany, ostensibly as a control on vagrants, disease carriers, Jews, and other "undesirables." The French Revolution provides the first modern instance of passport issuance for the sake of State control per se, however. Although the Constitution of 1791 guaranteed complete freedom of transit as a natural, inalienable, and uncontestable right, by 1792 a severe passport system was enacted in order to prevent the emigration of dissidents, the expatriation of funds, and the desertion of soldiers. The laws were made successively stricter and punishments for breach more severe.

Although the French had created the passport to prevent the emigration of their citizens, other countries were quick to follow suit, both to prevent the spread of revolutionary ideas and for reprisal—a fine excuse to control their own citizens. By 1800 all European countries, with the exception of Norway, Sweden and England, had compulsory passports. (English common law has long held that any person may leave a country without cause. England has, nonetheless, passed numerous laws contravening this tradition—although it must be said, in fairness, mostly during time of war.) The passport had come of age, transformed from a discretionary paper—granted at the request and for the benefit of travelers—into a compulsory document intended to limit individual freedom for the benefit or protection of the State. The revolutionary activities that plagued Europe from the time of Napoleon until mid-century made travel a generally troublesome proposition, and the era's passport controls did not simplify the matter.

From the 1850's to 1914, however, Europe and the world experienced something of a golden age, whether evidenced by the presence of economic progress and freedom or by the absence of wars, political activism, and "men on horseback." During this time few world states required passports for either entry or exit. (Russia, in keeping with its traditional disregard of human rights, was one that did.) World War I resulted in the reimposition of controls of all types, however, and even individuals whose countries did not require them to possess passports to leave found that most other countries required the document for entry.

Freedom of travel entered a long period of decline. Today there is a very high correlation between the ease with which a passport is available to a citizen and the amount of freedom in the country generally. Obviously, police states are slow to issue travel documents since they might quickly find themselves without a citizenry. Nazi Germany, the Sino-Soviet bloc, and most of the Third World are all distinguished by a low volume of outbound (or inbound, for that matter) tourists, largely because of state controls. One hallmark of India's status as one of the world's totalitarian nations is to be found in its 1967 Passport Act. The act states that—among other reasons—issuance of a passport may be denied to any citizen "whose travel, in the opinion of the central government . . . would not be in the public interest." The law further specifies that the government cannot be forced

to disclose its reason for denial, nor can its denial be appealed.

Let's not waste time with a regurgitation of how to acquire a conventional U.S. travel document; the passport office provides standard printed material giving a far more complete explanation than space allows here. What the office does not offer is an explanation of how to obtain what you really want—a *diplomatic* passport.

Most nations have two classes of passports—regular and diplomatic. The United States has three:

1. *Regular.* The common silver-green or silver-blue covered document available to all Americans, of which almost 3 million are issued each year.
2. *Official.* Maroon in color, about 75,000 are issued to Congressmen and government officials each year.
3. *Diplomatic.* Black in color with gold lettering, about 6,000 of these are issued each year—even though there are probably never more than 3,000 accredited U.S. diplomats at any one time. Most of these diplomatic passports are "courtesy" passports, issued to nondiplomats at the authorization of the State Department.

There are many advantages to having a diplomatic passport. First, it usually has no expiration date, which gives you much more freedom and less hassle. Second, presentation of the passport exempts you from most taxes in your foreign country of residence, and this feature alone is worth the price of admission. In addition, it is marvelous for intimidating customs inspectors, police or any other officials you may come in contact with. A bit of brassy attitude combined with possession of this document can result in special privileges, immunities, and favors.

The Passport Office has been attempting to abolish diplomatic passports for years, but those who are keen on having them are generally also high enough in rank to block these efforts. No doubt the office's efforts will intensify, but at present this passport is not only legal, but available. There are basically three ways of acquiring one.

1. *At the direction of the State Department.* This means you must have connections with the right people and give them a reasonable excuse for authorizing issue. It is a better bet, however, to become an honorary consul, or to "buy" one.
2. *Honorary consul.* Small, poor countries the world over may desire representation and connections in your geographical area or your field of expertise. It is quite legal for you to represent them, and when their government issues a certificate attesting to your diplomatic status, the Passport Office is obliged to correspond with a black passport. Being an honorary consul brings with it most of the usual privileges of being a diplomat and generally involves little work—perhaps the direction of companies or citizens from the represented country to the correct local government offices of the city where you live. In order to ply the means of getting honorary consulship you will need to speak the language of both the home country and the country to which you are accredited and be able to provide some service to the issuing government (or have some connection with its officials).
3. *Direct purchase.* Once again we come back to the world's less-developed lands. It is only necessary to find an ambassador, consul, or legate who is willing to issue a *Lettre de Chancellerie*—a document indicating that you have been retained to perform services or consultation for the government—and once again you are home free. Honorary consuls are appointed by the government of the country itself, but *Lettres* are issued by the local embassy, at the discretion of the local consul. There is, of course, a wide variance in prices, but $500 is a reasonable level at which to start the bidding.

The U.S. diplomatic passport is worth going out of your way to acquire, and indeed the documents that allow you to demand one are very valuable in their own right.

Americans are reluctant to give up their citizenship, but it might be wise to view citizenship as a business proposition.

There are basically two legal ways to acquire a *foreign* passport. For better or worse, they usually involve acquisition of the corresponding citizenship as well. In itself this should not put one off, since it is unlikely that you would ever spend much time within the borders—and control—of the countries in question.

The problem arises with the U.S. government, which reserves the right to revoke, or refuse to issue, a passport on numerous grounds—including: if the applicant is no longer a U.S. citizen. And this is where the problem arises. The Immigration and Nationality Act of 1975, in combination with existing case law, lays down a number of specific parameters concerning loss of citizenship. Among other reasons, you can have your citizenship rescinded either for obtaining naturalization in a foreign state upon your own application or for taking an oath, affirmation, or other declaration of allegiance to a foreign state (which is usually required if they are issuing you a passport).

The bottom line is that if you go out to find a "flag of convenience" you risk losing your U.S. citizenship. Interestingly, although the passport is considered prima facie evidence of nationality, international law in no way stipulates citizenship as a requirement for having one. The United States, as a matter of fact, is able to issue passports to people who "owe allegiance" even though they may not be citizens. The principle of dual nationality is widely accepted in international case law.

Americans appear to be far more reluctant to give up their citizenship than are citizens of any other country when placed in a comparable situation. Nevertheless, it might be wise to view citizenship as a business proposition and to look at both sides of the balance sheet.

The first way legally to obtain a foreign passport is by acquiring foreign citizenship. As a rule of thumb, most countries require residence for five years (although it varies) before they confer citizenship with its attendant passport. Most require you to formally renounce your previous citizenship (Canada, South Africa, and Switzerland are three prominent examples); others notify your mother country; while others do neither (Taiwan, Israel, and Ireland among others).

In almost all cases, your marriage to a foreign national will significantly speed the acquisition process. The laws of most countries provide for the automatic, or near automatic, naturalization of women who marry male citizens, a circumstance where "sexist" laws clearly work to the female's advantage. This is not, however, usually

the case for men, although usually the required period of residence is cut by at least several years if a foreign male marries a female citizen.

Direct or indirect purchase is another means of acquiring a foreign passport. Passports are not "for sale" anywhere, but hard currency in the right hands in the right countries can result in waiver of residence and other legal requirements for this acquisition. The countries offering passports as valuable souvenirs to foreigners are generally the same ones peddling their coins and postage stamps, and generally for the same reason—a depleted national treasury. Candidates are the small, poor, tropical lands of Africa, Asia, and Latin America. There are no official channels to go through; connections are all unofficial. In the poor lands of the world, however, just as in the wealthy ones, lawyers tend to pull the strings in political matters, and it is simply a question of finding the right one at the right price. The price is in the $5,000 to $25,000 area at this time.

Hard currency in the right hands in the right countries can get you a foreign passport.

The State Department estimates that "several million" Americans are legal holders of two or more passports, although almost all of them are naturalized immigrants—mostly from Italy, Greece, and Latin America. For obvious reasons, there are no estimates of how many surreptitious second passports are in the hands of Americans, but the number is unquestionably rising as fast as taxation, regulation, and the erosion of freedom in the United States.

Aside from taking out second passports with foreign governments (legally, but at risk of losing their U.S. citizenship) many otherwise law-abiding Americans have acquired false, strictly illegal, passports from either the United States or a foreign jurisdiction. The authorities are vitally interested in this issue.

It is perhaps a sign of the times that the desire to acquire false identification, and the "need" to do so, has spread from the ranks of smugglers, mercenaries, and other such international adventurers down to the level of the man in the street. This is not the forum for debating the moral issue of whether it is all right for a CIA agent to assume a different identity to flout the laws of a country but wrong for a private citizen to do so, or whether there is a difference between an American citizen getting a second identity in order to leave the United States, despite the fact the government wants to hold him for nonpayment of income tax, and a Soviet citizen's finagling in order to leave the USSR despite the fact that the government wants to hold him for nonpayment of emigration tax. There seems to be no more than an arbitrary and accidental correspondence between legality and morality on many such issues.

Anyway, there are basically three classes of false passport. The first consists of *forged* passports, that is to say, printed privately, without official government approval. The security measures exercised in the manufacture of passports in the United States is comparable to that used in the printing of currency. Customs officials are trained in the detection of forged (or altered) documents, and it would be a foolish fellow who would attempt to do this with an American passport, at least in an attempt to enter the United States. Forged American passports apparently have been successfully used abroad, however, as have the forged passports of other countries, especially the small, lesser known ones.

Then, of course, there are *stolen* passports. Well over 30,000 American passports were lost or stolen in 1975, and the number has been rising rapidly over the years, from about 17,000 in 1970. There are probably over 100,000 passports of all nationalities lost or stolen each year. It is impossible to say how many actually find their way into the hands of desperadoes, who then either alter the picture or the appearance of the buyer; but only 15 percent are ever returned to their owners. Since almost all foreign border officials usually only look to see if the picture and description roughly match the carrier and do not bother checking records to ascertain whether a document is stolen, these passports may circulate for years.

Because of the increasing number of lost passports, the U.S. government seems to suspect that some of its citizens may actually be selling theirs for a tidy sum and then claiming accidental loss. (Stolen U.S. passports bring up to $2,000 on the open market; the best guess is that 3,000 to 5,000 are actually stolen or sold each year.) Regulations regarding replacement have, therefore, been tightened up considerably—which often means that only a "temporary" passport is now reissued until return to the United States.

"Alias" passports make up the third class of illegal documents and have come to be considered the most serious type of passport fraud and also the most undetectable, hinging around the acquisition of a new birth certificate.

The acquirer can, of course, use anyone's birth certificate, but this will lead to problems if the rightful owner has also applied for a passport or does so in the future. The applicant, therefore, searches the graveyards, the newspapers, or the local recorder's office until he finds a baby born at about the same time as himself, who died while still in childhood. This process is facilitated in the United States by the fact that Americans come in all sizes, shapes, races, colors, names, and so on. Inhabitants of a country such as England or Japan or Haiti are clearly limited in this regard, since their populations are far more homogeneous. Armed with the child's full name, particulars, and the identity of its mother and father, he may then proceed to the town clerk and get a certified copy of the birth certificate; this in itself is not an illegal act in most states. (The illegality lies in the use of the certificate to procure other, false, identification.) How hard this is depends upon how wary the clerk is and how convincing the applicant. The reader may be surprised to know that the process can often be handled via telephone.

Some U.S. citizens may actually be selling their "lost" passports for a tidy sum.

The next step is the acquisition of a piece of supplementary identification "proving" the possessor of the certificate to be the one named. All states issue driver's licenses or some other official I.D. in lieu of the license—since the driver's license is considered the *sine qua non* of American I.D.'s. The situation varies from office to office, but normally the birth certificate accompanied by a verbal statement is sufficient to gain the license.

The last step is to take both to one of the 800 United States Post Offices that may take application for passports. Passport applications are also accepted at Passport Offices and by the clerks of any of the 2,800 courts in the United States. But since these officials have special training in apprehending fraudulent applicants, most phony applicants probably go the Post Office route. There are numerous cases on record of a sharp-eyed court clerk or Passport Office employee noting a hesitation in answering or an uncertainty in signing, leading to the apprehension of a near-perpetrator.

It is necessary to show the clerk a driver's license and to give him two pictures and, currently, a check for U.S. $13. The certificate is sent to the State Department and is returned, in anywhere from four days to two weeks, with the passport. The passport people only check the birth certificate visually for obvious signs of forgery and to insure that the raised seal of the issuing authority is present. They do not usually verify this fact with the issuing office, however. This means that a lot of fraudulent passports are probably acquired with phony birth certificates, since each of the thousands of local jurisdictions has its own form of certificate and it is impossible for the Passport Office to be sure any given one in real.

The process is, mechanically, quite simple and can be repeated any number of times—as some who have been caught and convicted have demonstrated. Since the only time when face-to-face contact is necessary is before a not-too-interested postal clerk, the risk is not high. Cautious professionals, however, always use an address of convenience for mail purposes. The address must not be a post office box, but such things as boarding houses, rented offices, and underground newspapers have been used quite successfully.

The number of passport frauds seems to be rising steadily. Frances G. Knight, director of the U.S. Passport Office since 1955, reports that 501 frauds were discovered in 1970, 604 in 1971, 614 in 1972, 738 in 1973, and 791 in 1974—not a substantial number when compared to the approximately 3 million passports issued each year, but, without a doubt, many frauds go undetected. At this point, however, the authorities know that the vast majority of frauds are aimed at securing I.D.'s for the illegal immigration of foreigners who cannot get legitimate visas. Each passport in valid for five years, and it is estimated that there are now about 14 million valid passports outstanding worldwide.

Not surprisingly, this type of thing also goes on in most other countries of the Western world and is easier in most of them. At this time a task force composed or representatives from a number of agencies, including State and Justice, is researching the problem. As possible countermeasures they are considering a mandatory national identification card, mandatory fingerprinting for issuance of passports, and the linkage of birth and death records on a nationwide basis. Some or all of these things—and more—are the likely wave of the future, but they will not serve to substantially diminish passport fraud.

A rather obvious effect will be to raise prices, and profits. Although the market for false I.D.'s is "illiquid", with prices varying widely on whatever the market can be made to bear, as of the mid-1970's, $150 might secure a birth certificate, $400 a driver's license, and $2,000 a passport—all minimum figures. The West Coast has long been the established center for this type of activity. Another "cost" is the penalty if caught: five years or $2,000.

A second effect will be to substantially increase the control government has on its citizens—thereby increasing their incentive to commit frauds of the very type it seeks to prevent. Like many official measures, it will be counterproductive even while serving the ulterior motives of its proponents.

In addition to known fraudulent passports, the U.S. government keeps what is known as a "Lookout File" of about 250,000 persons that the customs inspector checks each time a citizen enters the country. Included are defectors or expatriates wanted on

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criminal charges, those involved in child custody or desertion cases, those wanted on tax charges or any indebtedness to the government, AWOL military, and some subversives—including those who are no longer U.S. citizens. Nor does the search really stop at U.S. borders. In October 1973 a young man by the name of Gawin Naive was arrested and taken off his plane at Kennedy Airport in New York while on a temporary stopover on his way to Canada from Bermuda. Naive and his family, all avowed pacificists, emigrated to Canada in 1967, ten days before he was required to register for selective service at age 18. A warrant for draft evasion was issued on him, and six years later, despite the fact he had become a naturalized Canadian, U.S. authorities in Bermuda picked up his name on the plane's passenger list and reported him to the FBI.

A word should be said about some oddball travel documents that have been, are, or may be used for border crossing.

The Red Cross. After World War II, the Red Cross found, due to the literally millions of refugees and displaced persons flooding the globe, a need for a "laissez-passer" I.D. for people who could not prove their nationalities or whose totalitarian governments refused to issue appropriate documents. (A passport is issued only by a nation, whereas a "laissez-passer" is a travel document issued by a non-territorial organization.) The International Red Cross supplied a travel document to scores of thousands in order to facilitate their crossing borders to return to their old homes or their emigration to a new one; over 30 countries eventually recognized it. Unfortunately, this is no longer the case, and there are no longer any in circulation. You will have to wait for some type of worldwide catastrophe, I am afraid, before you can take advantage of this organization's good offices.

It is perhaps a sign of the times that the desire to acquire false identification is no longer limited to smugglers and such.

The United Nations. In view of the United Nations' international character, it was felt that its officials should have a laissez-passer distinct from those issued by their homelands. The 60-page document so issued is valid for two years and remains the property of the issuer (as is the case with passports, a tenet recognized by international law). The possession of the document, by international convention, cuts through a great deal of red tape. Because of its peculiar advantages, extraordinary care is taken with watermarks, paper, and such to prevent forging; loss or theft is exhaustively investigated. Unfortunately, this document is issued only to officials of the United Nations or its agencies, and even then on a strictly "as-needed" basis.

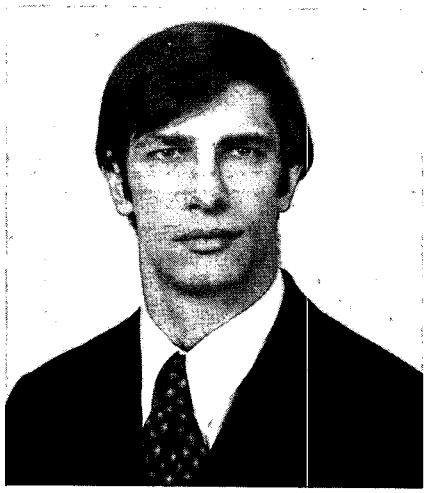
The Vatican. Since the Lateran Treaty of 1929 ceded the Vatican to the pope, the Vatican (as distinct from the Holy See itself, which has long issued special laissez-passers to cardinals), has issued passports to citizens. The conditions of citizenship of this tiny state are unusual, in that a person automatically becomes a citizen under some circumstances.

The Order of Malta which has been in existence for more than 1,000 years, has issued laissez-passers since 1930; the documents are recognized by the Vatican, San Marino, Spain, Haiti, Italy, Ecuador, Peru, Lebanon, Chile, the Dominican Republic, Colombia, Austria, Costa Rica, Liberia, Guatemala, Honduras, Cuba, Cameroon, Somaliland, Iran, Bolivia, Gabon, Uruguay, the Philippines, and Senegal on a *de jure* (official) basis. Belgium, France, West Germany, Monaco, and Switzerland do so on a *de facto* (unofficial) basis. The document is issued to those representing the order and other persons considered worthy of special consideration. This is a little known possibility, realistic only for those in exceptional circumstances. The order's headquarters are in Rome.

World Service Authority. The W.S.A. was formed shortly after World War II by an American, Garry Davis. Davis would prefer to call to himself a citizen of the world, rather than of any of its countries, and toward that end renounced his U.S. citizenship promptly after printing the first W.S.A. travel document (fittingly numbered 000,001) in 1948. Since then he has been subject to numerous stints in jail, as well as deportation orders, arising from his internationalist activities. Most governments look upon him as something of a troublemaker, but since he is not a citizen of another state he cannot be successfully deported; indeed, Mr. Davis has often been shuttled back and forth and around the world for weeks on end in search of a place to light—a fact which would not seem to say much for his W.S.A. passport.

The document itself has not been recognized *de jure* by any major government, but, for what it's worth, Ecuador, Zambia, Upper Volta, Yemen, Kuwait, and Mauritius accept the W.S.A. document as a matter of law. It has been accepted and stamped in a *de facto* manner by a good number of border guards—generally those, however, in places like Afghanistan and the Cook Islands where any foreign passport at all is something of a novelty. Nonetheless, it is a very official-looking document and will, in combination with a brassy, confident attitude, get you into quite a few countries. (Application can be made to Mr. Davis at 1100 17th St. N.W., No. 1000, Washington, DC 20036.)

There is, of course, much more to be said about passports and dual citizenship in general as well as about the specifics for any given country—not to mention international business, working, tax, and investment ramifications. There is something to be said for doing one's homework early, so that if the time comes to move, at least one obstacle will have been overcome. The time is, more likely than not, coming—and it would pay to act now and beat the last minute rush. ◻



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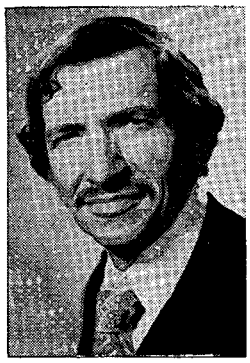

Dr. Harry D. Schultz

Time was when life was simple. The New York stock market seemed as though it was continuously climbing, the dollar was sound (convertible into gold) and your local bank was beyond reproach. Then it was simply necessary to use the speculative part of your capital in the New York market and put the rest of your spare cash at interest in your local bank.

One should not allow one's tastes to be fixed in time. Neither should one allow one's concept of the world to be fixed in time! We now live in a very different world. The dollar is neither convertible nor completely stable. The stock market, whether it moves up or down, is far more volatile than it ever was. Its weekly fluctuations are much greater than 10 years ago. Governments get even bigger and more dictatorlike.

Think International!

How many people in Italy are wishing they had spent assets abroad before it became a criminal offense not only to export money, but even to stockpile foodstuffs for fear of higher prices later? How many earthquake victims in recent years of excessive earthquakes were perhaps killed when the **second** tremors hit, because after the first **they had no assets to run to** but must stay in poverty where they were?

If you had "bought" the Dow Jones a year ago, you would have made little or nothing in capital gains because it has been more or less standing still. Isn't it time you widened horizons and looked a bit further beyond Wall Street and took a closer look at the **INTERNATIONAL** scene? We think it's important today to at least consider investing internationally and keeping abreast of the world political situation. We don't feel that space age investing can be effectively confined to one town, one vehicle, or even one country. One should be unemotional in his or her investment approach because, unfortunately, the road to economic ruin is strewn with the victims of economic, extremely nationalistic tyrants. The way currencies are floating today and with inflation abounding, we think it behooves you to consider investment where currency is sound, the economy is rising, and where stability offers promise—in the U. S., Europe . . . or wherever the situation warrants your consideration. Perhaps the new convertible Russian ruble is making investments somewhere else more attractive, or perhaps it's the wiley Arabs, making oil waves . . . and Russia suddenly stepping up its oil exporting. Have you noticed what the Hong Kong Exchange is doing recently? Did you know that Swiss chemical shares are in a bear market? **We're wide open to opportunity—wherever it exists.** If the moon produces investment opportunties—we like to think we'll be there.

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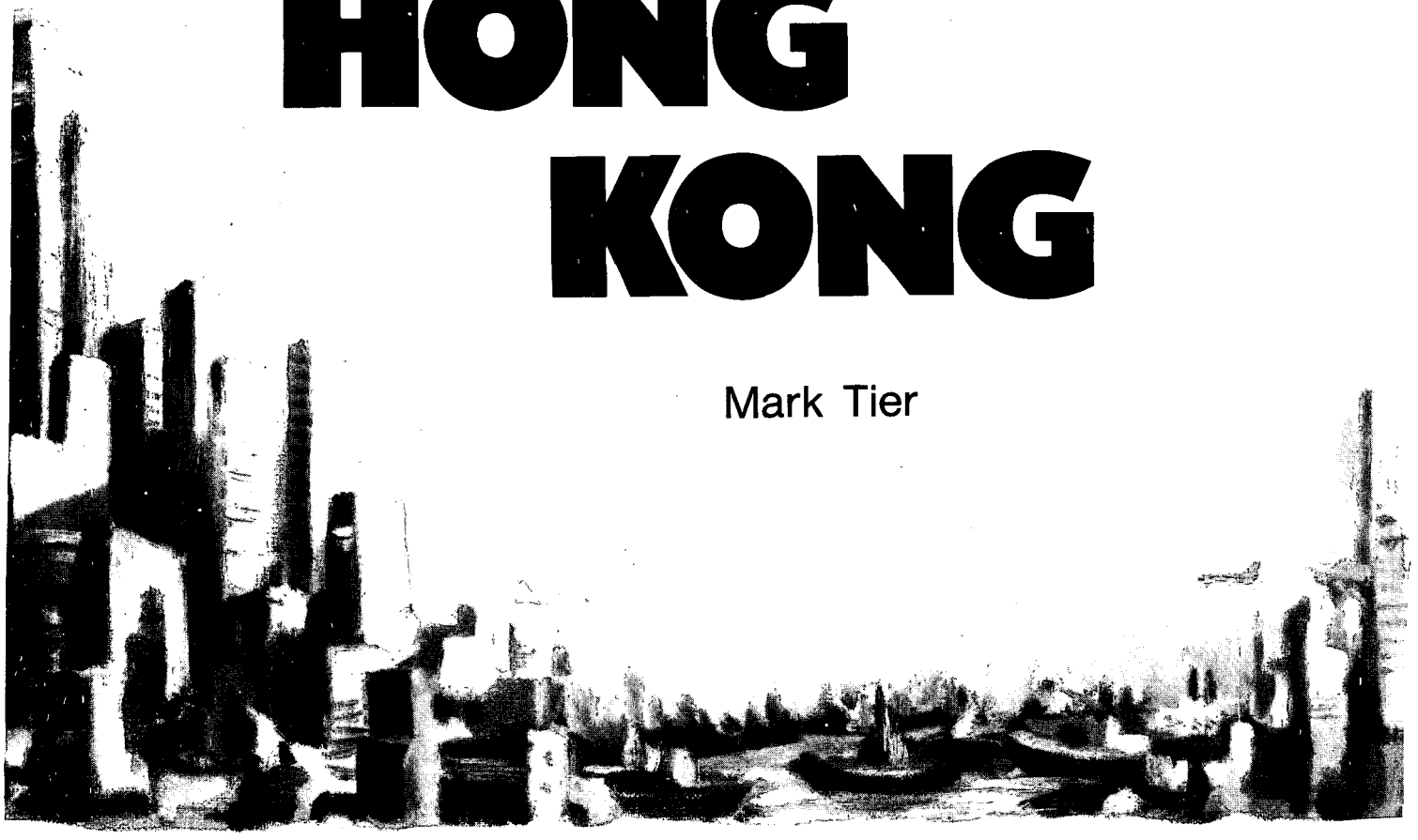


an 'impossible anachronism'

Mark Tier

If Hong Kong did not exist, it is unlikely it could have been invented. That, perhaps, is true of any country, but it seems particularly apt in the case of Hong Kong. Could you imagine a *British* colony run by British *"civil servants"* with a more or less doctrinal commitment to laissez faire, parked on the edge of a Communist superpower that effectively guarantees its existence, in the year of 1976, when by all the canons of modern economics, such a place is impossible?

Yet there it is. Hong Kong. A place every libertarian should visit at least once in a lifetime (it'll blow your mind), an economy that should be studied by every economist and included in every free-market economist's course as the best—and probably only—living example of what he is talking about.

Certainly, Hong Kong is far from being a libertarian paradise. Philip Haddon-Cave, the colony's financial secretary, sums up his style of government as "conservative, with liberal [in the Misesean sense] economic policies." It is not advisable to blow a joint along Connaught Road; you would be subject to a typically conservative reaction—and a harsh one at that. There are the faintest stirrings of a gay rights movement among Hong Kong's Europeans (only two percent of the population; the other non-Chinese faces you see on the streets are some of the four million tourists who visit Hong Kong each year) but generally "homosexuality" is a dirty word. And the recently formed Independent Commission against Corruption, backed by tough laws, tries to uncover the widespread bribery and rake-offs that cover such activities as drug peddling and prostitution (as well as murder, extortion, and other such less savory activities) from the official eyes of the law.

Even the economy is not a complete free market. The government owns 48 percent of all Hong Kong's accommodation, the reaction to a continuing influx of refugees from China in the 1950's. Rent controls regulate rents for all houses built prior to 1975. The government grants monopolies to bus, tram, telephone, electricity, television, radio, and other such companies and licenses banks, taxis, public light buses (jitneys), and a variety of other activities, although licensing is much less restrictive than elsewhere.

Artwork by Don Wood

does a roaring trade in Asia

Also, taxes are on the rise. The company tax went up last year from 16 percent to 17½ percent, but a proposal to increase the income tax (from a maximum rate of 15 percent) was knocked back by the appointed legislative council. Haddon-Cave has also been pushing for the imposition of a dividend withholding tax.

In Hong Kong, as elsewhere, government is on the rise. But—at the moment—it is a government that is very easy to live with. In fact, the feeling of freedom is so pervasive—and such a contrast to other places I have been—that one quickly forgets the restrictions and interventions that do exist. And certainly, while the government's stance on civil liberties is typically conservative, its laissez-faire attitude to economic liberties rubs off, leaving a general sense that anything and everything is possible.

Hong Kong's present state as an industrial economy (the world's largest exporter of textiles and toys) and as Asia's financial capital (74 licensed banks plus 80 representative offices from overseas banks), as, in other words, Asia's Switzerland, is in large part a result of the Communist revolution in China. Between 1948 and 1950, close to a million Chinese left China in the wake of Communist successes. Just after the war, there had been another mass immigration to Hong Kong, and between August 1945 and the end of 1950, Hong Kong's population rose from 600,000 to 2.4 million (it is now 4.3 million).

Until 1949, Hong Kong functioned as the premier entrepôt port for the China trade. The Communist revolution not only partially closed off that trade but resulted in a massive influx of willing workers and, most importantly, an incredible concentration of entrepreneurs and capital. War, followed by the civil disorder of revolution, caused many of the wealthy Chinese of Shanghai and other commercial centers (but most importantly Shanghai) to adopt a wait-and-see attitude, storing ordered capital equipment in Hong Kong or other safe ports and sending their money to safe havens. Thus, in 1949-50, Hong Kong had an unprecedented abundance of labor, capital (in a form ready to produce), successful and driving entrepreneurs, and, of course, a government that did even less then than it does now.

Hong Kong's economy is still characterized by this concentration of entrepreneurial spirit. In the production of textiles, for example, which account for over 50 percent of Hong Kong's exports, there are only three factories that employ more than 2,000 workers. Factories with less than 100 workers account for over 50 percent of employment. The mobility of its capital and labor is another key to Hong Kong's success. Factories will be established simply to fulfill one order—for as little as one month—and then the equipment and workers will seek employment elsewhere. As the majority of businesses are family businesses, often with a finger in more than one pie, the family's resources will be concentrated in the area engendering the most profit at the moment. Bank financing is of course important, and banks will lend on a person's reputation. Thus, an entrepreneur who has been successful in one area of business has a good chance of being funded in a business he has never touched before simply on the basis that, if he can make money in one place, he is a good risk somewhere else.

Exports dominate Hong Kong, and textiles dominate Hong Kong's exports. This story is itself a textbook example of how the free market rapidly adapts to changes—not only to the changing whims of consumers but to the changing realities of costs and prices at the production end. Hong Kong's textile industry began in the 1950's, producing cheap garments and materials of the type now produced by the cheap-labor countries of China, South Korea, etc. Hong Kong's economic success forced up wages (even though the population has more than doubled since 1950), so that Hong Kong is no longer a "reservoir of cheap labor." (Hong Kong businessmen have themselves been shifting production to such cheap-labor areas—as far away as the island of Mauritius in the Indian Ocean.) Hong Kong's textile industry is now moving toward the production of fashion goods (selling in such places as New York and Paris) and has almost moved completely out of the production of cheap garments—importing them from China!

Ten years ago, textiles accounted for just over 40 percent of exports, and this was a terrible source of concern to many commentators (including many of the colony's economists, who are as dominated by the ideas of Keynes as are their colleagues elsewhere), who called for government intervention to "correct this imbalance" and "diversify the economy." Today, Hong Kong's "dependence" on textile-based production has grown to over 50 percent of exports, but the colony continues to go from strength to strength.

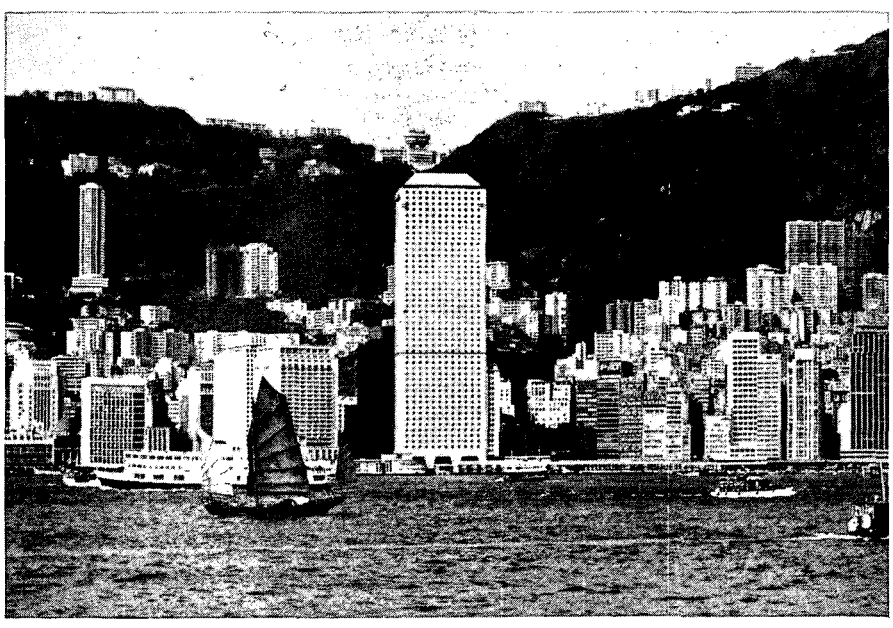
Hong Kong has, of course, diversified, though in ways that planners would have been unlikely to predict, or plan for. Hong Kong's position as financial capital of Asia is not something that could have been promoted. Its growth depended on two factors: the lack of exchange controls, government intervention, and taxes; and the strong domestic economy—already with a substantial demand for international financial transactions—providing the ready basis for the growth of financial institutions. (It is this domestic base that most tax havens lack, so that they cannot develop into true international financial centers.) Tokyo is, in many senses, preeminent in Asian finance—and would be its financial capital if not for Japanese exchange controls. An indication of Hong Kong's strength in this field is given by Singapore. There, the government made a determined effort to establish Singapore as Asia's money center, and its attractions are similar in many ways to Hong Kong's. The government established the Asian dollar market there, but now about 40 percent of the instructions to that market originate in Hong Kong!

Just as Hong Kong owes its present state and character to Communist China—to the Chinese who fled—so it owes its very existence to China. Hong Kong became a British colony as spoils of the opium wars of the 19th century. Faced with superior imperialistic forces, the disintegrating Manchu dynasty ceded Hong Kong Island to the British in 1842, ceded Kowloon (because the island was too small for British requirements) in 1860, and leased the New Territories for 99 years in 1898—because Kowloon was indefensible. All the treaties are, according to the Chinese, "unequal treaties," as they were forcefully extracted by imperialists from a weak government.

The British acknowledge this, and they acknowledge that the Chinese could take over Hong Kong with a telephone call. But they point out that some unequal treaties are more unequal than others, and when the lease expires in 1997 they expect the Chinese to come to some face-saving arrangement that will allow Hong Kong to continue intact.

Without the New Territories—370 of Hong Kong's 404 square miles—Hong Kong could not continue as an independent economy. If the Chinese were to resume the New Territories in 1997 when the lease expires, Hong Kong would cease to exist. Why, then, would the Chinese prefer Hong Kong in its present state—which is the implication of China's present attitude?

A good capitalist' reason: profit. Until a few years ago, Hong Kong was the center of China's trade, and contact, with the Western world. The annual Canton trade fair, a few hours by train from Hong Kong, was China's annual industry showplace. By far the bulk of Chinese sales either went



Hong Kong Harbour is now dominated by the Connaught Centre (middle), tallest building in Asia.

through Hong Kong or were written in Canton at the annual fair. Today, however, China is more open to the West, and both Hong Kong and the Canton fair are diminishing in importance to China's export business. Sales are being made in Shanghai, Peking, other Chinese cities, and elsewhere around the world.

But Hong Kong's importance to China has not diminished. Certainly, for the past few years, it seemed that is what was happening. Now, however, a new trend is developing that will make Hong Kong even more important to China than it has ever been before.

China supplies most of Hong Kong's food and water. Nowhere else in the world would China be able to turn a wide range of agricultural products into hard, Western cash. But China also does a lot of business *in* Hong Kong, and this business is growing.

Of Hong Kong's 74 banks, 13 are owned by the Communist Chinese. In fact, the Chinese renminbi—though inconvertible like the ruble—is the only Communist currency in the world that can be held in a bank account outside the Communist country's borders. After the Hong Kong government, China is probably Hong Kong's biggest landlord, owning factories, apartments, buildings, and land. The Chinese own six major department stores, two manufacturing firms, six warehousing and cold-storage companies, four insurance companies, seven investment companies, and four shipping and travel companies. In nearby Macao, which is the only remaining outpost of Portugal's empire and is now effectively run by the Chinese, China dominates the petrol market—a position gained through the good capitalist practice of cutting prices. The Chinese have just announced plans to enter Hong Kong's petroleum market, with the establishment of a fuel depot and service stations.

Most interesting of all for the future is the recent news that China will operate a machine-tool plant in Hong Kong. China has established a world market for its light machine tools—such as lathes—selling them in countries such as the United States and Switzerland. Rather like bringing coals to Newcastle. But to maintain the quality required for export, most of the steel used as the basic input must be imported. Continued supply to export markets points up the basic problems of a centrally planned, politically directed economy. Whatever the economics of the matter, it will become increasingly difficult to justify politically the diversion of resources to the production of exportable machine tools away from the political necessity to merchandize agriculture. Exports are seen (and not only in totalitarian states such as China) as "selling our resources" and becoming "too dependent on the West" (or whoever it is you don't like). Supplies of essential materials can also be erratic, being commandeered for some other purpose somewhere along the production line.

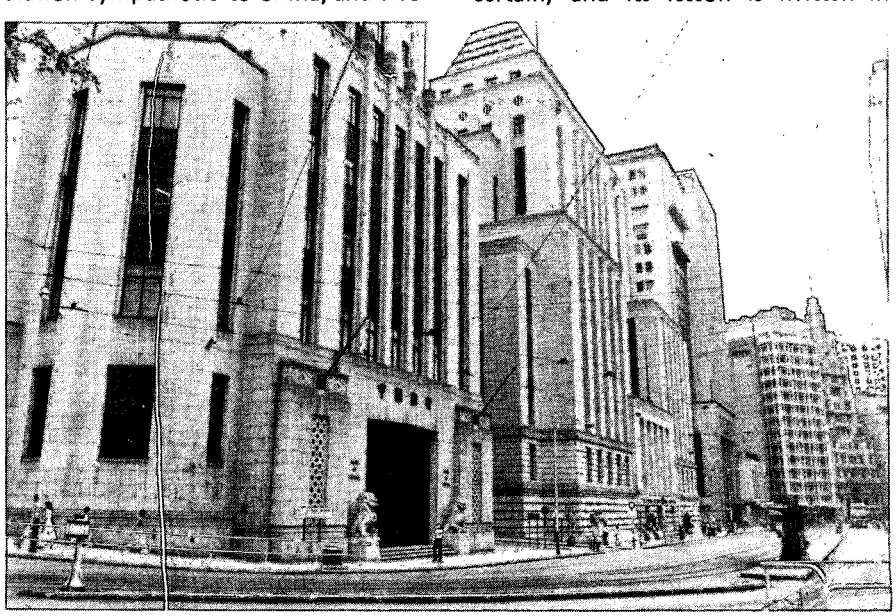
In Hong Kong, of course, none of these problems exist. Steel is available in any quantity and quality—as are labor, transport, land, capital, equipment, and whatever else is necessary. The guaranteed availability of these essentials outweighs the cheaper land, labor, and materials (not to mention no taxes!) available to the Chinese a few miles across the border.

The Chinese can still export from China, but their Hong Kong operation ensures that no markets are in jeopardy and that there are no restrictions on the possible expansion of those markets. Interestingly enough, such a venture cannot really be attacked within the Chinese Communist party on political grounds. One or more of the 13 Chinese banks in Hong Kong can supply or guarantee all the capital necessary for the project, so China would not even need to use any of her hard currency reserves.

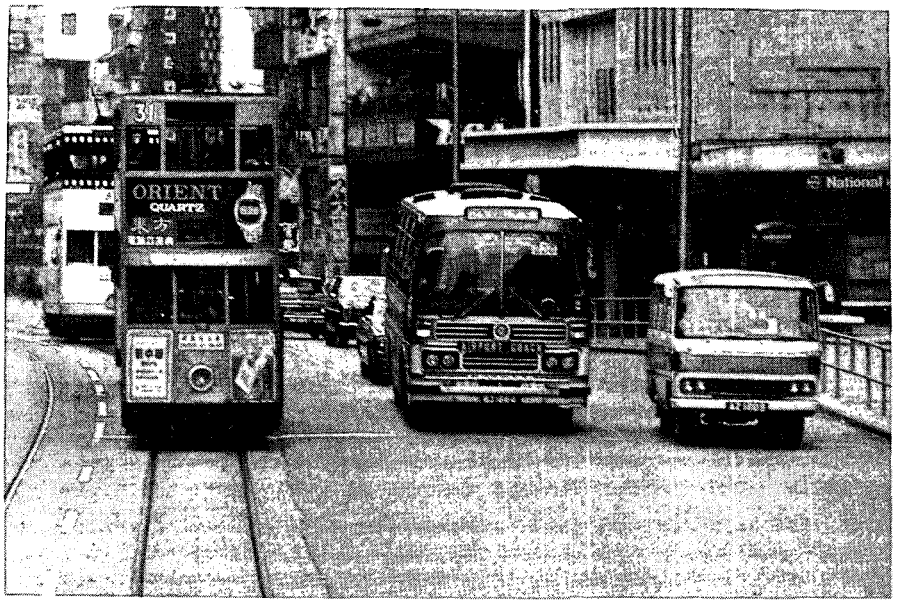
Whether more of these projects are announced in the future remains to be seen. Hong Kong has always provided a ready market for Communist products, with a large minority of the population sympathetic to China, and also acts as a convenient testing ground for the marketing in the West. (The Chinese have begun advertising in Hong Kong, and, I understand, even have an interest in an advertising agency!) It is certainly a natural place for the location of export production that has become so successful as to pose political problems at home.

In one sense, the Chinese—via what are really political fictions—already view Hong Kong as part of China. Approximately 50 Chinese enter Hong Kong each day with permits from the Communist government to do so. These permits are not exit visas but internal travel passes of the same type a Chinese citizen requires to visit Peking. Western journalists stationed in Peking receive two telephone bills—one domestic and one international. Hong Kong appears on the domestic account. (For embassies, of course, Hong Kong is on the international account. Otherwise there would be an "international incident.") On the subject of Hong Kong, the Chinese have been highly pragmatic and realistic in the past. As long as they continue to view Hong Kong this way, they will continue to be one of the colony's larger capitalists. Nevertheless, it does remain an unsettling paradox that one of the major beneficiaries of the world's freest economy should be the late Chairman Mao Tse-tung's Communist Party!

Although Hong Kong's future is not certain (there are, however, only two options: continuing as is or reverting to China) Hong Kong's history is certain, and its lesson is written in



Side by side are communist China's Bank of China and the Hong Kong and Shanghai Bank, commonly known as "The Bank."



Trains, buses, jitneys and taxis compete for business.

black and white. The free market is the best economic system for any "developing" country.

Of course, compared to other "undeveloped" countries, Hong Kong had certain advantages. The influx of capital and entrepreneurs in the late 1940's would certainly boost all but the most dictatorial of economies. The entrepreneur predominates in Hong Kong, and the person brought up in that environment inevitably absorbs some of the entrepreneurial attitudes that are part of his everyday experience. As a British colony in a special place on the Chinese coast—with more or less free movement for the local population to and from China—Hong Kong never developed an identity separate from China that would lead to demands for political independence. Thus, the institutions and legal framework of Hong Kong developed much differently from in other colonial dependencies in a way that was conducive to the attraction of capital, finance, and foreign investment.

But—and this is a big but—Hong Kong also had all the problems that economists consider drawbacks to "development." Its population was 600,000 in 1945, over 2 million in 1950, and has doubled since then to today's figure of 4.3 million. Admittedly, the character of much of this increase has been different from that in other countries—able-bodied young men emigrating from China, in addition to the excess of births over deaths. Land for any purpose is more expensive in Hong Kong than just about anywhere else in the world—simply because only 20 percent of the colony's 404 square miles is usable for residential, manufacturing, or agricultural purposes. Hong Kong's main markets—Britain, Europe, and the United States—are on the other side of the world. Most of Hong Kong's food must be imported.

There can be little doubt that a factor in Hong Kong's success is the willingness of its people to work, and to work hard. I remember flying into Hong Kong from Manila. I had noticed some workmen leaning on their shovels beside the runway at Manila, resting in the hot midday sun. In Hong Kong, as we landed, were some Chinese workmen in the same hot sun, digging away without even seeing the planes taking off and landing. Hong Kong is indeed a receptive home for the "puritan" work ethic—but this is not something peculiarly Chinese. In fact, Manila airport forcefully reminded me of Chinese mainland airports, where dozens of people sit around doing nothing.

And so it goes. One can argue from whatever ideological perspective one wishes, choosing one's facts to suit. At any geographical location at any time in history there are advantages and drawbacks. On balance, it always seems to be the social and economic system that makes the fundamental difference. Hong Kong's success is due more to its lack of government than to anything else.

Hong Kong has (effectively) no unions, no minimum wage laws, low taxes, no exchange controls, very little legislation proscribing hours of work, no barriers to starting a business, no restrictions on foreign investments, no tariffs, no quotas, and no subsidies to farmers or businessmen.

Most of its laws have expiry dates (although, as in the case of rent control, those dates have been extended on occasion) The government has little involvement (other than granting monopolies) in public transport and utilities—providing water and running the Kowloon-Canton Railway. Hong Kong's new mass transit system is, certainly, owned by the government and established as a public corporation. The system, which is now building an underground railway connecting Hong Kong Island with Kowloon, is completely free to make its own financial arrangements—and if the government wants to keep fares down, for example, it must vote the amount of the fare reduction in its annual budget. That sort of proposal has very little chance of passing through Hong Kong's appointed legislative council. (Although the government has guaranteed loans, I suspect it would allow the corporation to go bankrupt and then pay off the creditors rather than bail it out.)

Although the government grants public transport monopolies, there is such a variety of different systems that competition is still the prime regulator. The new mass transit system will have to compete with buses and ferries. (The ferry from Kowloon to Hong Kong runs every five minutes or so and costs 15 cents—*Hong Kong* cents, that is, or about 3 U.S. cents. On the Hong Kong side, buses and the world's only remaining double-deck trams run next to each other; and everywhere are little 14-passenger "public light buses" (jitneys), which cost only 20 HK cents more than the bus fare (30 cents). If you want individual transport, a taxi costs only HK$2. And on top of that, there are radio taxis as well. In Hong Kong, a car is an unnecessary luxury (though there are quite a few of them, a good percentage chauffeur-driven!). Even at those low fares, everybody makes a profit. (So does Hong Kong's post office.)

As measured by government statistics, the per capita standard of living

Hong Kong's success is due to its lack of government more than anything else.

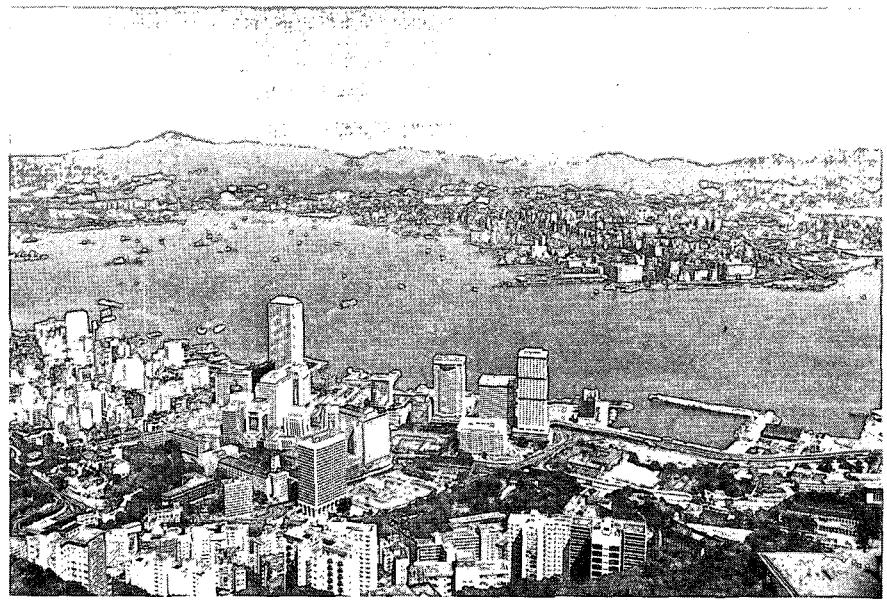
has doubled since 1961 and is now second in Asia only to Japan's, having surpassed Singapore's and Taiwan's in the past 20 years.

As if reflecting its competitive nature, one can choose between four consumer price indexes to measure the rate of price changes. And all four agree that in 1976 prices rose at about 3-4 percent. This compares with 15 percent two years earlier.

In fact, one of the most striking things about Hong Kong, from the economic point of view, is how its economy has reacted to the ups and downs of the world over the past two years. According to Austrian economic analysis, the freer the market, the faster the economy will eliminate the effects of past inflation. For Hong Kong, recession/depression was a memory by mid-1976. Unemployment dropped from 9 percent in September 1975 to 5 percent in March 1976; exports were 50 percent higher in the first six months of 1976 compared to a year before. Not only did Hong Kong respond faster, its "boom" was much shorter—and wilder—than in the United States or Europe. The Hong Kong stock market began falling about six months before other stock markets in the Western world—and it had gone higher faster before it fell.

What makes Hong Kong completely unique in the world is the way the economy is almost self-regulating via the currency—the Hong Kong dollar (which, after the Swiss franc, is probably the world's hardest currency). The Hong Kong government does not keep balance of payments statistics. It does not know and does not need to know whether its payments "balance." The Hong Kong dollar is issued by three private banks (Hong Kong has no central bank), and in order to issue currency the banks must deposit foreign currency to an equivalent value with the government. That, combined with the floating of the currency, means that the internal money supply is *entirely* regulated by exports, imports, and money flows. Even though the government issues statistics for the currency on issue, we still do not really know just what Hong Kong's money supply is, since U.S. dollars are also widely used, especially for financial transactions and capital payments. And all the world's currencies are available.

The Hong Kong dollar has often been likened to the gold standard that operated throughout the Western world until 1914. And rightly so. Under the gold standard, an outflow of gold, caused by more overseas purchases than sales, would lead to a deflation of the currency and a fall in the price level until the gold outflow ceased. The reverse would lead to an inflation of the currency and a rising of the price structure. For that system to work, prices—particularly wages—must be flexible downward. Hong Kong is one of the few economies in the world where that is true. Instead of gold, foreign currencies form the base. But the principle remains the same.



Hong Kong Island's waterfront from Victoria Park.

Hong Kong's success is second only to that of Japan in the region and is affecting the economic policies of other Southeast Asian nations. In an effort to attract foreign capital, there seems to be a competition developing between the governments of the region to see which can give the most tax breaks, low-interest loans, and other special subsidies. Envying Hong Kong's dominance as a financial center, and as the logical location for the headquarters of multinationals operating in the region, the Philippines recently announced tax and other incentives to try to attract such activities to Manila. President Marcos (or maybe his wife, Imelda) wants to turn Manila into a financial center and in his bid for their business is offering to banks such carrots as complete exemption from foreign exchange controls on offshore dealings.

Much of Taiwan's and South Korea's economic growth comes from allowing the market to take its course, even though such governments may be exceedingly oppressive in other ways. Singapore—like Hong Kong, a Chinese city-state—sees itself as Hong Kong's rival in many ways, but Hong Kong has been growing much faster despite Singapore's aggressive use of tax and other incentives to attract investment. Hong Kong recently passed Singapore in per capita living standards and came out of the recession as much as a year before Singapore. Singapore's government is much more authoritarian and interventionist in nature, so Hong Kong's preeminence seems assured.

Hong Kong is what an economy should be. Capital, labor, and even land (though in short supply) are highly mobile between different uses. Prices, including those of labor, are flexible up and down. And *because* the price system is flexible, all persons in the market are highly aware of price changes and react to them quickly, no matter what their position within the economic system. (An important indication that this is true in the labor market is that there is no differential between wages in manufacturing and in agriculture. Even in "developed" economies such as the United States or Australia agricultural laborers' wages can be significantly lower than those paid for industrial workers.)

The result is Hong Kong. An anachronism in a world of welfare states; an economy that, according to conventional economics, cannot work; but a place whose very existence should call into doubt most of the political myths of our time. ◻

Mark Tier is the editor of World Money Analyst, *an international financial newsletter. He is cofounder of the Libertarian World Society.*

SURVIVAL PREPAREDNESS, a step at a time

Don Stephens

"I'm really quite concerned about trends in this country today; if only I had the money, I'd build a retreat so far back in the Rockies that I might go there and no one could find me." How often I have heard that statement or some variation thereof since becoming a retreat consultant! On further inquiry it all too often translates into something like: "I'm worried, but since I don't have the cash to really do it up right, it's hopeless and I just won't do anything for now."

It's easy to understand how one might feel that way on first encounter with the retreat idea, particularly since it is so often too narrowly defined. I have heard any number of supposed experts sagely advise that any *proper* retreat would start with a remote working ranch of many acres, complete with a spacious farmhouse, barns, and outbuildings, various kinds of stock, a garden, producing orchards, woodlot, and berry patches, a farm pond, an independent source of power, and a well and waste disposal system. To this they typically recommend adding well-stocked underground storage, camouflage, defenses, and a full-time caretaker. Now, I'll grant you that would indeed provide good retreat potential, but it could also set its proud owner back well over a hundred thousand dollars the first year, not to mention taxes and upkeep. Not too many of us are in a bracket to make this kind of instant outlay!

That's no more the only path to preparedness, however, than a Lear jet is the only way to travel. Indeed, there are as many retreat approaches as there are people pursuing them. And those writing and speaking on this subject would do a greater service by outlining various alternatives than by trying to force everyone into a single ill-fitting and financially exclusive pigeonhole.

When Barbie and I first got the retreating bug, over 12 years ago, we had just established joint housekeeping and could little more than meet monthly expenses from our meager salaries; so any such major investment was out of the question. But we also realized that if we waited until we could afford to "do it right," there would always be something else that took precedence, and then one day it might well be too late and we would have to pay dearly for our procrastination.

So we decided to begin preparing then and to expand our efforts as funds permitted. If you find yourself limited, by income or commitment, in the amount of immediate capital outlay you can reasonably earmark for retreating, perhaps our approach to maximizing survival potential on limited funds will have value for you. I might emphasize that this narrative isn't intended to provide step-by-step instructions but, rather, to offer some exam-

ples from which to tailor your preparations to your own unique requirements, resources, and expectations. Remember, no one, pat formula for preparedness can best suit everyone's needs.

We began by carefully reviewing our finances to see just how much we could realistically allocate for survival purchases. Our budget dictated spending only $10 a month in the beginning. That may not seem like much, but as I look back on it now I am amazed at what we were able to do with that sum before the recent burst of price inflation.

We made a list of all the basic areas deserving consideration—clothing, shelter, water, food, defense, transportation, etc. Our goal was to proceed with each evenly. It made no sense to have a year's food supply on hand but no way to cook it and no water. So what did we buy with our $10 allocations? Well, I remember one month we spent it on garden tools, another on 1,000 rounds of .22 ammo, another on fishing gear and frog spears. We bought

There are as many retreat approaches as there are people pursuing them.

heavy-duty jeans ($3 a pair back in those days), pack sacks, first-aid supplies, wool socks, and survival books. Sometimes we saved for several months for bigger items like a mountain tent, hiking boots, or a camp cook stove.

An inventory of useful items that we had acquired already included such items as sleeping bags, several rifles, and wool clothing. We started putting our survival gear in a metal footlocker (scavenged on trash day), and before long it was full. We also let it be known among family and friends what we were up to; so when the holiday season rolled around we received gifts that furthered our efforts, rather than more neck ties, costume jewelry, colognes, and the like.

At the same time, we started an emergency fund by putting our pocket change in a piggy bank. Those dimes, quarters, and halves began to mount into a sizeable sum. Because they were silver at a time when that was already becoming uncommon, we held on with resolution to what we had. Since then we have seen this nest egg increase in value more than three times as compared with paper; our only regret is that we weren't able to put aside more.

Figuring that know-how stored in the head is the most valuable and portable survival resource, we set out to expand our knowledge in relevant areas. Since our limited budget precluded purchasing any but the volumes most essential for continued reference, we made extensive use of library privileges to fill in the gaps. There was no sense buying what would only be read once.

To augment our previous formal training, we sought out classes on useful topics. The Sierra Club was offering, at no charge, what it called a "basic mountaineering training course," and we jumped at it. Despite the philosophical propaganda, we came away with a host of valuable information as well as field experience. Other classes we attended included first aid, wilderness survival, snowshoeing and cross-country skiing, combat shooting, leather working, and spinning and weaving. All in all, it was time well spent and the cost was nominal.

Reading and classroom experience weren't enough. We knew we would also have to get out and test our training and learn a bit by trial and error. Barbie and I had both tended gardens with varying success before, using cultivated bare-earth methods with lots of water, fertilizers, and insecticides. But there were new techniques, less dependent on purchased chemicals, that we'd only read about. So following the ideas in Ruth Stout's *Gardening without Work* and *How To Have A Green Thumb without an Aching Back,* we jumped into mulch gardening with both feet. Since the fellow next door put in a conventional garden of comparable size, we were able to compare approaches.

We covered the ground with about eight inches of leaves and lawn clippings early in the spring, only parting the soil where rows of seeds were to be planted. Once the seedlings were up, we tucked mulch back in around them and waited. Our neighbor, on the other hand, spaded, rototilled, fertilized, and raked. He strung strings as a guide to mark neat little planting rows guarded at the end by sticks capped with the seed packages. Once his seeds were planted, several hours each day were spent on watering, hoeing, and spraying. The whole summer we only watered on half a dozen evenings after particularly hot days; and we never

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had to cultivate, because weeds were unable to push up through the thick layer of mulch, just as Ms. Stout had predicted. The fellow next door had a respectable harvest to show for his 300 hours of gardening, but despite a few mistake-induced problems, we really had produce running out of our ears. After eating, canning, freezing, selling, bartering, and giving away what we could, almost a third of the crop just rotted on the vine. We were still eating two summers later what had been preserved from that one season's gardening experiment.

That was just one of many learn-by-doing adventures we pursued. Others included hunting for large and small game, fishing in lakes, streams, rivers, and the ocean, foraging for wild plants and cooking what we gathered, testing our theories on underground caching techniques, preparing camping shelters and gear from native materials, building fires several ways without matches, and finding our route with map and compass, by the stars and sun, and with the aid of geologic features. We also tested the gear we were accumulating on these outings and, as funds permitted, replaced that which didn't live up to our expectations.

Yes, save grocery sacks — how do you improvise a brown paper bag in the wilderness?

The hiking, hunting, fishing, and gardening all provided valuable exercise for keeping in shape, and this too was considered in our long-term survival preparations. Without good health, one would be far less able to meet the demands of retreating. But that requires more than just exercise. So we became quite involved with health planning. We read books on good nutrition and started weaning ourselves from excessive sugars, starchy overprocessed foods, caffeine, and alcohol and began to eat better planned and balanced meals. The fresh produce from our garden helped with this.

We also wanted to take care of possible health problems while doctors were still available. We had complete physicals, began stockpiling those medications we used regularly, and sought corrective care as recommended by our physicians. I'd had my tonsils removed when I was about ten, but Barbie's were still giving her trouble, so out they came. We also resolved to have appendectomies performed as part of the package if either of us required abdominal surgery for other reasons.

We had our dentist fill all developing caries promptly and remove wisdom teeth so they wouldn't be a problem later. We sought his advice, too, on maximizing our oral preventive measures. Since we both had been "blessed" with eyes requiring correction, we each had several pairs of glasses made but saved the old ones. Good vision would be very important at retreat, and we reasoned that if all our lenses ground to current correction became broken, even specs with an outdated prescription would beat blurry squinting.

The idea of saving and recycling discards was important to our preparation in other ways. With a bit of imagination, a lot of essentials can be fabricated from natural materials, but clothing is one of the more difficult. So rather than planning to make do with buckskins and scratchy homespuns, we opted for stockpiling clothing in advance. Going out to purchase a wardrobe for retreating could be an expensive venture, though; so we sought alternatives. It occurred to us that we had been discarding and replacing quite a lot of clothes over the years because they had become faded, tattered, or out of vogue. They might not be suited for further use here and now, but they would sure beat running starkers through the puckerbrush at retreat. And what wasn't good enough to salvage could serve as patching material for that which was. We might not look fancy for the bears or rabbits, but we'd be warm and protected from sunburn and brambles. We started packing away our discards for future use instead of sending them off to Goodwill.

Once we had pursued that line of thought this far, other erstwhile rubbish took on new value. Those down-at-the-heel but still serviceable shoes went to the cobbler for resoling and then into a carton marked "retreat footwear." The same kind of thinking put empty bottles, discarded pots, pans, and other kitchen items—even grocery sacks—into storage. They might be unwanted now, but how do you improvise a brown paper bag in the wilderness and in how many ways might it prove useful?

Having learned to see discards in a different light, there seemed to be no reason to limit them to our own. Our income had grown by this point, so we took our enlarged survival gear allowance to swap meets, estate auctions, and garage sales where other people's rejects often filled our "wants" list for a fraction of new cost. We secured a great pressure cooker that would process five half-gallon jars at a time for $5, canning jars for 60 cents a dozen, tools for pennies on the dollar, and even used unregistered firearms in like-new condition at a sizeable savings. The realization that in our throw-away society a discard isn't necessarily junk certainly took some of the tension out of our retreat budget. The only thing we had to watch was becoming tempted by bargains that were not high on our list.

Because we had to proceed slowly, we had time to establish priorities carefully and to investigate our purchases before they were made. That was one of the compensations of working with very limited funds. In my professional consultations since, I've had the opportunity to observe the kind of blunders easily made by those rushing into preparedness too quickly with a generous budget. I know of one individual who is presently trying to dump his fourth "retreat" property! It, like the others, has proven, in time, grossly unsuitable for its intended purpose. He ended up selling the previous three at losses, and it appears he may well be in the same boat again.

A travel trailer is less expensive than a fixed location dwelling and provides greater secrecy.

One of the first outings of our Sierra Club course was to be a "desert car-camp." At the time they announced it, I wasn't sure quite what that was. It turned out to be just about what it sounded like; we left for the California high desert one fine spring weekend and camped for several days in or around our vehicles. Lacking more luxurious accommodations but hesitant to share our sleeping bags with miscellaneous uninvited ground-crawling creepies, we tossed a twin-

sized mattress into the trunk of our '64 Plymouth and slept very snuggly there. It was over six feet inside between the fenders; so I wedged in quite well, though the gas filler spout did prove a somewhat uncomfortable lump in my side by morning. We even found that if the wind became too vigorous we could be nicely protected by pulling the trunk lid down so it was only open a crack.

We continued to camp that way for some time, including a weekend spent with some retreater friends on Rosarita Beach in Baja, but as our family grew and we accumulated more gear, it got a bit crowded. Barbie had a chance to do some subcontract work, and she suggested we save that money to purchase a small trailer for camping in now and possibly for eventual retreat use. It seemed to make a lot of sense. Though we were living in Los Angeles, it was our plan to return to the inland Northwest for retreat, that area being well away from massive population centers, familiar to me from 20 years' earlier residence, and where much of our family still lived.

We figured that if things came crashing down earlier than we had planned, we could jump in the car and be in the Rockies in less than 30 hours, to join those already there, with what survival gear we had. But as ever more of our want list was filled and usable discards accumulated, it soon became far more than the car alone could transport. A trailer behind would not only carry that extra equipment and supplies but provide housing once we arrived. And it would allow us to take advantage of the automotive power-plant we already had, greatly cutting the costs over purchasing a pickup camper or mini-motor home.

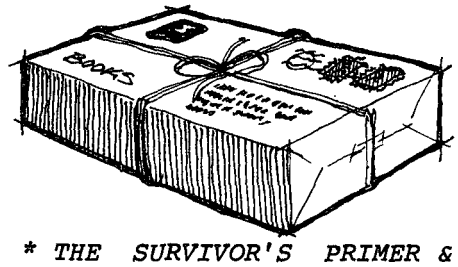
After careful shopping and comparison, we settled on a beautifully maintained little 13-foot Santa Fe that cost almost exactly what we had allocated for the purpose. We'd never known such camping luxury! It had a king-sized bed with a three-quarter bunk above for the boys, a stove, sink, and ice box, a water tank and pump, gas and electric lighting, a closet, lots of storage, and a huge window in the back for enjoying the view. We were soon spending nearly all our weekends in it someplace away from the city. It also proved great for vacations and later for visits to our chosen retreat site.

Our experiences with the travel trailer confirmed some theories we had formulated already about the idea of a vehicular retreat:

1. It's less expensive than a fixed location dwelling at retreat.
2. Because you can keep it next to your home or in a secured recreation vehicle storage facility, it's less vulnerable to vandalism than the fixed retreat dwelling, without the added cost of a full-time caretaker.
3. It provides more flexibility; you can have several destinations in mind and, if one is unreachable, can head for another and have your gear with you. And if circumstances require that you move to another part of the country at some point, you can take your retreat home and goods along.
4. It provides greater secrecy; if you buy a fixed retreat home, the previous owners know as much about it as you do and may decide to return if things come unglued. If, on the other hand, you have someone come in and build a fixed retreat home for you, they'll know it inside and out as well as you do. But a mobile retreat unit is built in a factory using economical assembly-line methods by workers who will probably never see it again.
5. Since your goods are with you, you will have them if for some reason you can't reach your intended destination when the time comes. If you got half way to your retreat and were stopped by a severe snowstorm, for example, you could pull off the road and have warmth, food, and other essentials to get you by until you could complete your journey.
6. Finally, and for many people most important, you can enjoy now what you have purchased. If you live in a major city and the nearest place that you feel is safely remote and otherwise suited to retreating is 500 miles away, there won't be too many times a year you can enjoy your investment. But if it's parked in your driveway, it's always handy.

We found this last feature true with our camping trailer. As I indicated, we used it almost every weekend. But that doesn't mean we always took it to the same place. It was our mountain cabin, our beach house, our motel when visiting other cities or when on the road, our desert hideaway, our lake house, and our ski chalet, depending on where we parked it. When traveling, it also proved a great place to stop for a meal or snack, a rest break, or to clean up before arriving at the home of friends.

Our little home on wheels also offered some unexpected fringe benefits.



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Since our house was small, the trailer was a good place to get away from the noise and confusion to read, work, nap, or just relax. When we entertained out-of-town friends it was our mini-guesthouse, and we sometimes even played grand host by outfitting it with a fruit bowl, glasses, and a cold bottle of wine for the first night of their visit. Because the isolation provided by the trailer allowed visitors to get out from under foot and have more independence, we all enjoyed their visits more; Ben Franklin's saying, "fish and visitors smell in three days," no longer held true.

One of the concerns we had encountered with parenting was the uncertainty of leaving our children with a babysitter. Often none were available when we decided on an impromptu evening with friends, and, if one could be found, he or she might well spend the evening filling our children's heads with philosophical or religious viewpoints out of line with our own. And it seemed that the market demand for child attendants was largely filled by those too immature or too senile to provide a quality of service with which we could be comfortable. So we started taking the children and trailer with us; we'd park it in our hosts' driveway, and when the children were tired we could put them to bed where we could be close at hand. The dog kept them company and stood guard, and we were only a few steps away if they needed anything. Also, if the gab session or party ran very late, as it too often did, we could just go out and go to bed, delaying the long drive home until morning. All in all, it was real luxury.

Once we were convinced of the present and retreat advantages of a camper outfit, it wasn't long before we wanted to upgrade. We saved our pennies and soon had a used Dodge camper van conversion. We would use the van alone for overnighters and pull the trailer behind for "two room" comfort on longer outings. The van we purchased was mechanically a bit of a headache due to inherent design weaknesses, but it still was a big step forward.

Now we've traded that van for a mini-motor home and have space and comforts that really bring mobile retreating into its own. Since the new rig provides all the accommodation required by our family of four and two guard dog/pets, the trailer has, at this point, been relegated to carrying our extra gear and supplies. We now have a family retreat site with fixed structures and other improvements as well and are living in the Northwest, but we still like the backup security our mobility provides.

Perhaps some of these insights will help you in considering the course of your own preparations. Our experience has proven to our satisfaction that you don't have to start out like Daddy Warbucks to garner the benefits of retreat ownership. In fact, in many cases those forced by budget considerations to proceed a step at a time seem to arrive at approaches and solutions better suited to their individual needs than the few who start out with more dollars than sense.

As I said in the beginning, too often individuals who are aware of and concerned about the uncertainties of this country's future are nevertheless overwhelmed by the chore of realizing a retreat for themselves and those for whom they care. But I believe this can be surmounted by dealing with the task piecemeal.

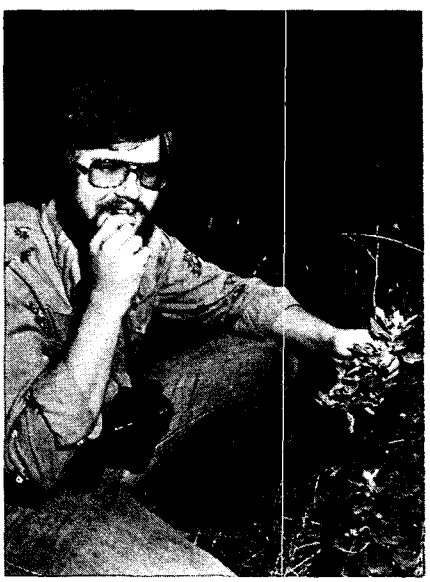
In his book *The Woods,* Charles Seib explains this very well. Mr. Seib had bought a patch of woods in Virginia as a place to get away on weekends from city madness. Thinking it would be nice to have a cabin there and wanting it to be his personal place, he nevertheless knew he wasn't up to the enormity of building a *whole house.* So he decided to try approaching it in steps more within his own scope. He might not be able to build the whole thing, but he *could* dig the holes required to pour footings—any fool could dig a hole! Once the holes were dug, mixing a little concrete and pouring it into them didn't seem too tricky. And putting posts on the footings wasn't that hard. Then setting beams on top of the posts seemed relatively simple. So it went—with floor joists, flooring, plates, studs, and so on until before he knew it he was putting the cap on the chimney. What had appeared impossible viewed in its entirety proved to be child's play when dealt with one step at a time. So it is with retreating.

Those who start out with more dollars than sense often end up with retreats unsuited to their individual needs.

There is another analogy that can be drawn between Mr. Seib's cabin and retreat preparation, and that has to do with the fun and growing sense of efficacy that it can provide. Often a person's first motivation for preparedness is fear of the personal consequences of the crises he anticipates. But fear is a negative motivation and one to which we tend to become immune; witness the way most of us just block out the fear of nuclear war, which a few years ago drove people to build bomb shelters. Unless that fear incentive is reinforced or replaced by more positive motivations, the task at hand soon tends to fall by the wayside.

In analyzing why we've followed through on our retreat efforts when so many others haven't, I think it is because we made sure it gave us not only peace of mind but also more positive reinforcement. This came both in a sense of accomplishment with each new skill mastered or needed item acquired and from the fun we have with those goods and skills. Preparedness is our hobby!

Those are my criteria for a successful retreat approach; it should not only provide peace of mind and safety in the teeth of an uncertain future but should also give a sense of accomplishment and provide recreational fun right now. Our step-by-step method leading into vehicular retreating was workable because it met those criteria. I think it is one deserving your consideration too. ◻



Don Stephens is coproducer, with Barbie Stephens, of a Survival Tape Series *and* The Survivor's Primer and Updated Retreater's Bibliography.

MAKING MONEY FROM SOUND MONEY: THE NICHOLAS DEAK STORY

Steven K. Beckner

As a young officer in the East European subsidiary of London's Overseas Bank in the 1930's, Nicholas L. Deak "learned that taking positions on foreign currencies and precious metals was a viable business and that basic mistrust of paper currencies and ensuing weaknesses in them could be profited upon."

This early lesson in the ambitious Hungarian's life was the germ of an idea that grew into what is today one of the world's foremost foreign exchange organizations—and the largest in the Western hemisphere. With over 50 member firms scattered from New York to London to Zurich to Hong Kong and back to Los Angeles, the Deak-Perera Group combines a broad and exciting range of foreign exchange services with dealings in precious metals and both international and domestic banking.

Following World War II, when millions of Americans wished to send money to relatives in ravaged Europe, it was Deak & Co. that handled many of those remittances abroad. When Vietnamese refugees left their fallen country by the tens of thousands only a few years ago, it was again Deak & Co. that rushed in to set up shop in refugee receiving centers on Guam and in this country to buy their thin, gold "Tael" wafers and provide them with the currency they needed to start life anew.

And over the years, wherever tyrannical governments have attempted to enslave their citizens by preventing them from removing their wealth, Deak & Co. and its affiliates have taken the lead in helping people surmount those exchange controls by often ingenious "blocked funds" transfers.

The unique character and personality of the Deak-Perera Group is imparted by its founder-president, a man whose story rivals that of Midas Mulligan or any other character ever conceived of by Ayn Rand. Born in 1905, Nicholas Deak remains the dynamic head of his international aggregation. A vegetarian, at age 72 he still runs in the New York marathon and finds time to ski cross-country, swim, and play squash and tennis.

Deak lived through runaway inflation in his native Hungary. He can recall the rush to spend increasingly worthless paper and the times his family had to barter their jewelry and clothing to farmers in exchange for food. Not surprisingly, then, Deak is a sworn enemy of inflation. And he is not optimistic for America's chances of avoiding that fate: "I feel that inflation will continue as long as the budget of the Federal Government cannot be gotten under control. With the budgetary deficit we continue to have inflation. Since budgetary deficits, in my opinion, cannot be cured, inflation will continue, and as time goes by will develop into accelerated inflation and lead to the collapse of our monetary system as we know it today. Subsequently, these developments will lead into a deflation and depression. The timing is uncertain. It will continue to depend on the magnitude of the budgetary deficits and other economic uncertainties."

Whether because of harsh experience or because of the financial traditions of his native land, Deak deter-

mined early to enter international finance. As he told the Newcomen Society at a 1975 dinner in his honor, his life and his business have been a response to the challenge of "creative entrepreneurship, dramatizing what men can accomplish in our free world."

After spending five years at the Royal Hungarian Trade Institute learning the basics of international trade and finance, he went on to earn a doctorate in international finance from the Swiss University of Neuchatel. Dr. Deak moved rapidly upward from there, going from the Hungary-Rumania branch of Overseas Bank to a post in the Economics Department of the League of Nations in Geneva.

But his was not to be the life of an academician. In 1939 he came to America and quickly launched a foreign exchange business. But with the outbreak of war, he joined the U.S. Army, where he soon came to the attention of the infant Office of Strategic Services (OSS). For four years he used his linguistic and paratrooper abilities in the service of "Wild Bill" Donovan on dangerous assignments in the eastern Mediterranean and in the Far East. In one exploit he likes to recall, Deak masterminded and personally carried out the wholesale smuggling of some 1,000 railroad freight cars out of Russian-occupied Hungary to the West at the end of the war. Later, such tactics were to be used in the service of Deak customers who wished to remove their *money* from economically or politically inhospitable countries.

In 1946 Nicholas Deak restructured the firm he had started before the war and incorporated as Deak & Co., now the holding company for the Deak-Perera Group. The Perera Company, Deak's major competitor, was acquired in 1953. The company flourished, opening offices throughout the United States and around the world—Washington, Miami, San Francisco, Vancouver, San Juan, Honolulu, Macao . . . Ever on the watch for innovative services, Deak pioneered in the opening of foreign currency vending machines at New York's John F. Kennedy (then Idlewild) Airport. These airport outlets have continued to spread throughout the country.

In 1958 the Deak-Perera Group broke more new ground, entering the preserve of the "Swiss gnomes" to open its own bank in Zurich in order to avoid paying commissions to Swiss banks. Today the Deak-controlled Foreign Commerce Bank is in the top 10 percent of Swiss banks and, with one of the highest liquidity ratios in the country, is among the fastest growing. In 1967 Deak acquired the respected Bankhaus Mayer-Loos in Vienna, Austria, changing the name to Bankhaus Deak, now the third largest private bank in that city.

Not one to restrict himself to international horizons, Deak had previously acquired a small-town bank in upstate New York. Since 1957, when he bought it, Deak National Bank of Fleischmanns, New York, has kept its small-town image while doing such unorthodox things as: offering checking accounts denominated in gold or silver; making gold and silver collateralized loans; effectively offering free, interest-bearing checking accounts through a combined checking-savings scheme, in which overdrafts are debited to savings; and offering OMNI checking accounts, by which checks can be written in any currency. These are not the kind of services Federal bank regulators and most of their clients have in mind—though perfectly legal—but their popularity can be measured by the fact that this little bank's deposits have grown 15 times over the past 20 years and include accounts from 30 states and 35 foreign countries. Unfortunately Deak was rejected when he attempted to bring his fresh perspectives on customer service and sound money to the entire banking community by running for a seat on the Federal Reserve Board of Governors last year.

Having lived through runaway inflation in his native Hungary, Deak is a sworn enemy of inflation.

Deak is one businessman who is not bamboozled by the dreams, schemes, and promises of government.

A major role of the Deak-Perera Group has been in serving other banks in need of specialized foreign exchange services for their customers. Deak said many bankers told him there was "no market for our services" when he started, but he was undaunted. "They found . . . as time went on," Deak recalled, that "individuals and firms engaged in international business were demanding more varied services, including greater knowledge in exporting. Banks soon saw that their often conservative and old-fashioned 'foreign departments' could not fill the bill. They were faced with a new vocabulary and the fact that special skills definitely were needed to deal with such transactions as multilateral currencies; triangular deals; swaps of currencies; hedges and straddles; arbitrage; restricted, blocked, non-transferrable, resident and non-resident accounts; multiple rate currencies; banknotes, and inland and hand payments. It didn't take long for the Deak-Perera Group to be ushered on to center stage to practice its fine art."

Today, in a world where exchange rates are more volatile than ever and at a time when people are increasingly concerned with the threat of inflation, the services that Deak & Co. offers are in greater demand than ever before. And its network of banks, foreign exchange houses, and precious metals departments—linked as they are by constant intracompany communication on market conditions and opportunities around the world—enables it to provide traders and investors nearly every conceivable service they might need. Whether it be a currency futures contract to hedge against an unfavorable exchange rate movement affecting foreign assets or liabilities, a Swiss Franc account in or out of Switzerland, a portfolio of foreign bonds, a bullion safekeeping account abroad, or collecting on a foreign draft, one or another of the Deak-Perera members can provide these (and many other) services. And for those with gypsy blood, Deak & Co. deals in 120 foreign currencies and even sells prepackaged currency complete with travel tips.

Deak obviously puts his trust in hard money. "The best way for a businessman or an individual to protect himself against inflation is to stay active, engage in imaginative business, swim with the tide and stay atop," he advised recently. "A sizeable part of the available capital should be invested in precious metals, and another sizeable part should be invested in highest

yield, short term, readily convertible securities . . . ."

Amid the dispute between investment counselors and economists over whether we face inflation or deflation, Deak counseled that gold and silver have always "fared well" during all types of "economic upheavals." "They were always readily convertible into cash, if cash was needed, or they could be bartered for other products, if we reach that stage."

And he is confident that, no matter what comes, the Deak-Perera Group will survive and prosper. "In our type of business, monetary and economic upheavals create additional activities," he observed. "We will not fare badly in an inflationary world, because we are active in business and we are aware of the dangers of inflation. We maintain a liquid situation in currencies, in ready funds, and we avoid speculations."

Asked about investing in foreign currencies, Deak replied that "of the so-called 'hard' currencies, . . . the Swiss Franc is the hardest and the soundest. The Austrian Schilling is aligned to the Deutschemark (and to some lesser degree to the Swiss Franc). The Austrian economy depends greatly on the German economy."

He added that "inflation in the United States will affect the currencies of the entire world. If there is inflation in the United States, there will be inflation in the rest of the world." Still, Deak said hopefully, "Switzerland might be an exception and, I should say, will probably be an exception. Accordingly, the Swiss Franc, in my opinion, is the strongest currency and will be the strongest one. Switzerland can withstand to a great extent inflationary pressure, but she cannot isolate herself completely from the outside world."

What concern does Deak have for government intrusion into his activities? Deak said he is "fully aware" that the company "would be greatly affected by U.S. exchange controls" and said he would have no alternative but to cooperate. But he noted that while exchange controls "might reduce the scope of our business considerably, . . . we might place more emphasis on our activities in the offices outside the United States." In any event, he said he does not believe "that dealing in restricted or blocked funds in foreign countries can be and will be prohibited by the U.S. government."

Deak said that another "gold confiscation, as it happened in 1933, is within the realm of possibilities," but he does "not believe that our customers will be exposed to harassment by the U.S. Government or will be subjected to more investigation or inquiries than in the past." The company "will always comply with the laws and regulations of the United States" but will only open its records for government inspection "if the laws require us to open the books to them for *legitimate* purposes" (emphasis added).

What does the future hold for the Deak-Perera Group? "We do not intend to enter into new types of services," Deak said, "but just expand the services which we are providing now to the public, and we endeavor to become more efficient and geographically more widespread." Thus the company just opened a new office in Chicago, to take advantage of a growing interest in foreign commerce and travel in the Midwest. But Deak said the company will expand only as fast as it finds more "competent managers," persons who "have to go through very lengthy training" and acquire "years of experience before they become managers." Many high-level Deak personnel are Swiss, including, most prominently, the company's executive vice-president and vice-chairman of Foreign Commerce Bank Otto E. Roethenmund.

Nicholas Deak will continue to stand by hard money. He is one businessman who is not bamboozled by the dreams, schemes, and promises of governments, and perhaps this is the secret of his success in good times and bad. ◻

Steven Beckner graduated from Duke University and is the editor of Deaknews.

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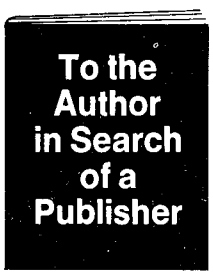

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VIEWPOINT

THE ECONOMY IN PERPETUAL CRISIS?

Even before the economic recovery had really taken hold, many people expressed doubts about its durability—doubts that continue today. The usual debate was not and is not about *whether* inflation would accelerate and real growth stagnate, but *when*. Several prominent economic forecasting firms are already talking about another recession in 1979 or sooner, and most seem resigned to a fairly permanent inflation rate of around five to six percent.

Why all this gloom? Can we really expect no better than alternating periods of reversal and recovery, with chronic inflation ranging only from bad to worse over the cycle? Must the economy remain in perpetual crisis?

These questions are difficult to answer. Fundamental institutional changes have so increased uncertainty for both economic forecasters and business planners that it has become extremely difficult to make the sorts of long-term plans (and investments) that are essential to continuing prosperity.

Fiscal Discipline

Over the years, a number of institutional devices evolved which had the effect of providing discipline within our political and economic system, so that any excesses that developed would tend to be self-correcting. Some of these devices constituted an implicit constitution—rules that limited the nature of decisions that could be made by political and monetary authorities. Others had the effect of inducing productive behavior on the part of individuals and business enterprises.

One such tradition was the balanced budget rule—the broadly accepted view that governments should, except in exceptional circumstances such as war or depression, keep operating expenditures in line with tax revenues. In the 135 years from 1796 through 1930, the Federal budget was in deficit only 39 times, and about half of those deficits occurred during war years. This balanced budget rule suffered a massive intellectual assault in recent decades. Attempts were made to substitute an alternative rule, such as running budget deficits in recessions and surpluses in booms. But no alternative rule really put any effective constraint on political officials, who face strong pressures to increase government spending, and none to increase taxes. The inevitable result of giving up an imperfect fiscal rule in favor of no rule at all has been chronic and growing budget deficits.

As governments sell securities to finance these budget deficits, interest rates are bid up for all borrowers. Central banks then come under pressure to offset the rise in interest rates by rapidly expanding bank reserves. This ultimately results in more inflation, and an inflation premium is then added to interest rates. But it is easy to lose sight of such long-term effects when faced with short-term political and economic problems. And that leads us to the necessity of some workable mechanism to ensure long-term predictability in the monetary measures of value, both domestic and international.

Monetary Discipline

Historically, the supply of money had been kept in some relation to gold reserves, or adjusted to maintain the value of major currencies in relation to one another. Under this system, there was some assurance that periods of inflation (which were a wartime exception) would be reversed, and that long-term stability in the purchasing power of major currencies would be the norm. There was also some assurance that the major currencies would be good substitutes for each other.

The discipline on the monetary authorities under either the gold standard or fixed exchange rules has been ended, but no other rule now effectively constrains the monetary authorities of the world.

Now, it is no doubt possible to devise, on paper, a better rule to avoid the massive monetary gyrations of recent years. But the best that has yet been accomplished toward implementing such an alternative is the quarterly money supply targets of the U.S. Federal Reserve System—targets which are neither long-range nor binding, and which have inspired dangerous legislation aimed at giving discretionary authority over monetary policy to the Congress. Again, the predictable consequence of abandoning imperfect rules for no rules is to make it impossible to foresee whether monetary policy, here and abroad, will be more or less inflationary in the years ahead. No mechanism provides incentives for political and monetary authorities to maintain a stable monetary unit of predictable value. In monetary policy, as in fiscal policy, there is no generally accepted rule, no discipline.

Of course, the ultimate discipline of harsh reality still remains. Excesses in fiscal and monetary policies can't be continued forever without eventually leading to economic chaos and disaster. There are still no free lunches. But without the institutional rules that provide an early warning when trouble is ahead, the nation and the world can rush headlong into economic and political turmoil—raging inflation, deep recession, and the political instability that follows from such crises of political-economic policy.

Political Discipline

The loss of discipline over fiscal and monetary authorities has been compounded by a loss of discipline over governmental authorities. This is partly a result of the tremendous advantage that incumbent politicians have in elections, due to such things as the growing importance of media exposure, the ability to buy votes with special interest legislation, and "campaign reform" laws designed to restrict financing of challengers. Once elected, politicians can generally assume that they have tenure, thus reducing their incentive to be responsive to the electorate.

ALAN REYNOLDS

Moreover, an ever-larger number of tasks is delegated to unelected bureaucrats who have the authority to change the rules of commerce at whim, making it nearly impossible to determine if today's business decision will run afoul of tomorrow's regulatory edict. The traditional rule that has been lost here is the rule of law—the idea that there should be a sphere of uncoerced individual choice in which all actions are

permitted except those that violate clear laws, known in advance.

There has also been a weakening of discipline over political authorities because of the increasing centralization of political decisions, and of the tax base needed to implement those decisions.

As late as 1940, state and local government tax revenues *exceeded* Federal tax revenues by nearly 75 percent. By 1975, the roles had been reversed, and the Federal government was extracting 59 percent *more* from taxpayers than state and local governments were.

More and more money has been transferred from consumer-determined uses to politically-determined uses, and within the political sphere the transfer has been from states and localities to the Federal government. The centralization of the tax base brought an accompanying shift of control.

The Federal government—by the way it allocates expenditures, transfer payments, and grants to states and localities—now has a very large and growing impact on decisions about who shall produce what for whom. Yet the trends toward centralization, bureaucracy and incumbency mean that citizens have less control than in the past over how these decisions are made about how to spend the citizens' own earnings.

Benefits from government spending have become concentrated on politically influential groups, while the costs are diffused and camouflaged by the sheer complexity of Federal financing and transfers. The unfortunate result is that politicians can more easily organize supporters by offering new spending programs to select groups than by offering tax reductions to the population as a whole.

At the state and local level, politicians can gain support by spending Federal grants without bearing any personal responsibility for the Federal taxes need to either finance those grants directly, or to service the increased Federal debt. Even the discipline of competing governments—the exodus of productive businesses and individuals from overtaxed communities—is being thwarted by plans to provide larger Federal grants and loans to communities that suffer the consequences of undisciplined government spending.

Private Discipline

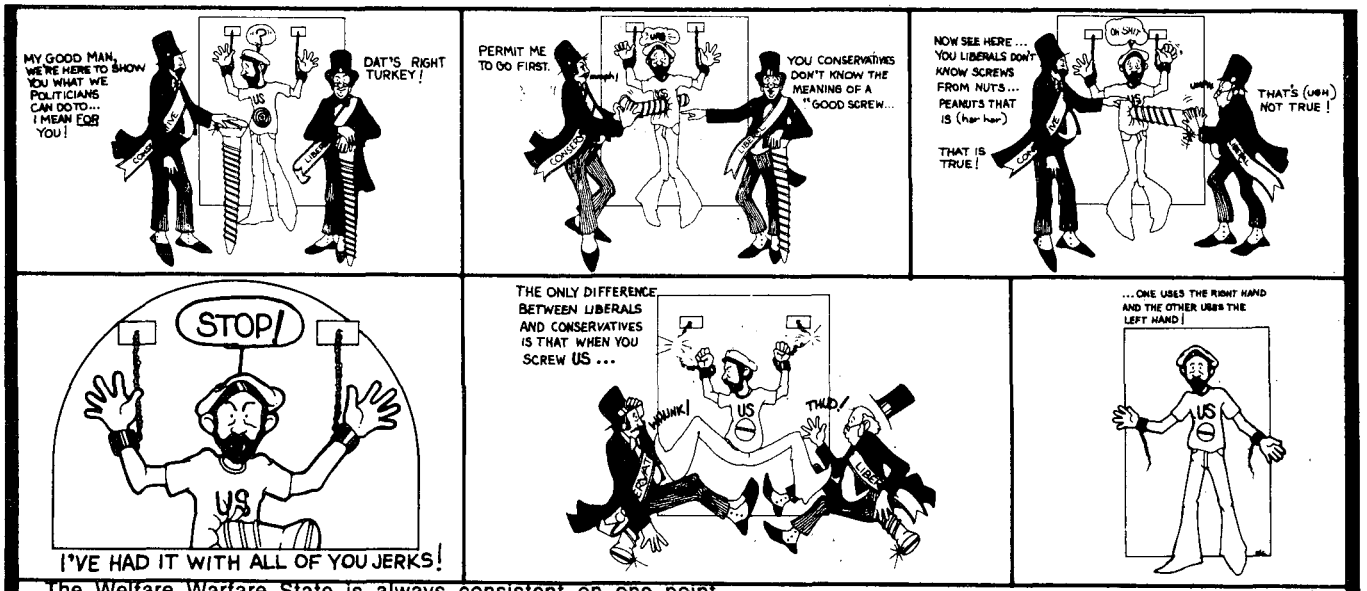
The issue of discipline spills over to the private sector as well, and to public policies affecting private incentives and behavior.

By providing a wide variety of cash and in-kind benefits to *broken* families, for example, we have removed the incentive to maintain *intact* families, and shifted some of the responsibilities of parenthood from parents to taxpayers. In many cases, a low-income household head can earn little more, after taxes, than is provided from tax-free welfare benefits. To a lesser extent, the same is true of long-term unemployment benefits, especially when supplemented by additional employer-financed benefits or by food stamps. By taxing employers and workers in order to finance benefits to non-employers and non-workers, productive behavior is discouraged and non-productive behavior is rewarded.

Now, we are a compassionate society, and sincerely want to help people in temporary distress or with permanent disabilities. But programs intended to alleviate a temporary loss of earned income have been regarded by some recipients as a permanent claim to goods and services produced by other people. One person's "right" to an unearned income necessarily entails another person's obligation to provide that income. The "welfare rights" mentality destroys family responsibility, discourages self-improvement, and demoralizes overburdened taxpayers.

A variation on the theme is the

(continued on page 88)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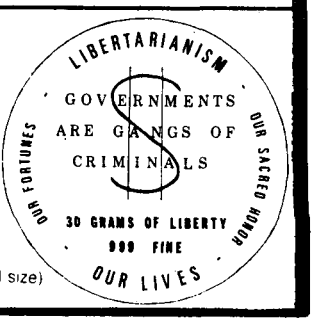

FOREIGN CORRESPONDENT

GILT-EDGED SOCIALISM?

Tjome, Norway. There is a strange notion floating about in the world, namely that there is such a thing as "Scandinavian socialism" which through extensive state planning has been enormously successful in combining maximum social welfare with maximum democratic liberty. The notion is treated with enthusiasm by the left ("socialism with a human face") and repugnance by the right ("Scandinavia—gloom, sin and suicide").

They are wrong, both right and left. There is no such thing as "Scandinavian socialism" if by that term is understood a particular set of policies, peculiar to Scandinavia, for which one can claim either human bliss or human misery. Much of what is called "socialism" in this part of the world is not much different from American "liberalism;" true, the taxation is higher and statism worse here than in the United States—but all in all there is not more of it than in many other Western countries.

But has Scandinavia been a success? In a way, yes—Sweden ranks third, Norway fifth in the world in per capita income among the developed nations, the social security is almost total. There is Rule of Law, political liberty, and even some measure of economic freedom. They are egalitarian societies with little social strife, few strikes, and overfull employment.

Norman Macrae, deputy editor of *The Economist*, some months ago wrote an article of unstinted praise about Norway. It appears that Mr. Macrae belongs to the British Labor Party; he saw in Scandinavia a (last?) hope for success of the very same policies that have run Great Britain aground. The trouble with the article was that it did not explain why the very same policies which have failed on his side of the North Sea should be such a success on mine. Mr. Macrae is no fool; why this glaring omission?

The answer is that he simply makes a common mistake; he tagged his socialist hopes for statist success on to the relative advantages of Scandinavia. And Scandinavia is exceptionally well suited for trying out new economic policies or social organizations—of the New Deal, Fair Deal and semi-socialist type.

For one thing, Norway and Sweden are exceptionally homogeneous countries, with very little genetic and cultural variety; people are almost exclusively white protestants who have known no waves of foreign immigration for the last thousand years. For another, they are both small populations, just big enough to warrant large-scale production, but without having to suffer the urban problems of huge population concentrations. And compared to most other countries, Norway and Sweden are sparsely populated with relatively little pressure on space, land, and other resources. Add to this that modern history has been very good to Scandinavia, both politically and economically, and you find the best possible conditions for social experimentation.

What Mr. Macrae did was simply to mistake the Scandinavian conditions, indispensable to the cause he believes in, for the cause—statist socialism—itself. The mistake is common enough these days, with the rapid decline of faith in the old dogmas, whether Keynesian or Marxist.

What is a hotter question, however, is whether the favorable circumstances of Scandinavia are enough to save statism from long-term failure. The truth is, Norway and Sweden are ceasing to be the examples of success. With the highest taxation in the world, the two countries now also have the highest levels of wages and other costs in the world. Those branches of the economy that are not already heavily subsidized (agriculture, fishing and transportation have been for a long time) produced to a large extent for inventory last year, aided by heavy credits from the State. This was done in order to avoid unemployment, which is still comparatively negligible, but rising. And it will continue to rise unless President Carter can work some economic miracle on an international scale.

The new nonsocialist government of Sweden now has to face the bleak facts of the biggest economic crisis since the 1930's, but does it by continuing the policies of Mr. Olaf Palme's Social Democratic Party.

The Norwegian Labor government, however, is in a far better-off position. Its great fortune is the North Sea oil, on which the government is borrowing heavily abroad in order to finance the cost of overfull-employment policies. Real inflation is above 10 percent ("officially" 9.2 percent, but the consumer price index is endlessly juggled by subsidies, price controls and change of composition), which the government financed last year by borrowing abroad to the same tune that Great Britain does. Since Norwegians number only 4 million (against 50 million in Britain) this means that Norway borrowed 12 times as much per capita abroad last year as did Great Britain. Not all of this money goes into governmental deficit financing—some is invested in oil exploration and production—but a good percentage does. The result is that Norway will have spent a good deal (and may have spent most) of the income from the oil, long before the oil gets out of the ground—or rather the sea.

It is a gamble with very high stakes, possibly very profitable from the Labor party's point of view. If it wins the election in the fall, it will have some $150 *billion* in oil money over the next 12 years to finance the establishment of a gilt-edged socialism, the likes of which the world has never seen. And they will do it, too, not because they necessarily believe firmly in socialist dogmas, but simply because they lack the imagination to conceive of "progress" as anything but continued centralization of economic and political power.

At the moment, the government is able to—and does—promise everything to everybody, and damn the consequences; the opposition parties have very little with which to oppose.

Not the prospect of a saner policy, but special interests fighting about the distribution of the oil money: this will be the issue of this year's election.

It may in the end be a sad story, one about a country going from rags to riches and back again in a century or so. But it has happened before, elsewhere.

Ole-Jacob Hoff

LUCIFER'S LEXICON

by L. A. Rollins

Objectivist, n. A person of unborrowed vision, who never places any consideration above his own perception of reality, who never does violence to his own rational judgment and who, as a result, agrees completely with Ayn Rand about everything.

socialism, n. An indigestible omelet.

theocracy, n. The integration of Church and State. An unholy alliance of Brute Faith and Blind Force.

The Institute for Humane Studies, Inc. offers five new pamphlets in education, law, and social theory.

C-3 The Separation of School and State: Pierce Reconsidered, by Stephen Arons.
A landmark Supreme Court decision made fifty years ago, *Pierce* v. *Society of Sisters*, declared it beyond the power of the state to force all children to attend public schools. That decision set a precedent for cases which have argued basic questions of values, such as compulsory attendance, religious liberties, and freedom of belief. Stephen Arons champions a First Amendment interpretation of *Pierce*, which would protect parents' rights to choose schools that instill values they approve.

C-4 The Political Economy of American Public School Legislation, by E. G. West.
Professor West investigates the history of New York State education between 1800 and 1840, the Free School Campaign of 1840–1850 (focusing on Horace Mann), the newly developed economic theory of democracy, and public school legislation during the remainder of the nineteenth century. He concludes that the familiar "trinity" in educational parlance—"universal," "free," and "compulsory"—acquires altogether different and paradoxical meanings when government is involved.

L-4 Violence as a Product of Imposed Order, by Butler D. Shaffer.
Drawing on his experience as a labor lawyer and from the insights of modern psychology, the author argues that legally imposed settlements of disputes are themselves a source of violence in society. The frustration and powerlessness experienced by individuals subject to certain types of legal restraints may trigger the aggression and violence that those restraints were intended to avert.

L-5 Liberty and Law, by Giovanni Sartori.
Professor Sartori distinguishes political and philosophic liberty. Then he examines the problems of political liberty, the rule of law, and positive and negative freedoms to show how those concepts harmonized in classical liberalism.

S-6 The New Despotism, by Robert A. Nisbet.
Robert A. Nisbet, Professor of Humanities at Columbia University, defines the nature of the "invisible" power of the state over people's lives. Terming it the "new despotism," the author attributes the peculiar effectiveness of bureaucratic power to its concealment under the guise of "humane purposes." Today, the illusion of an individual's freedom and privacy can be preserved, while at the same time fundamental economic and political liberties are being circumscribed by the government.

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BOOKS

HARRY BROWNE'S COMPLETE GUIDE TO SWISS BANKS. By Harry Browne. New York: McGraw-Hill Book Co. 1976. 534 pp. $9.95.

Reviewed by Mark Skousen

Fie on you, Harry Browne! You've taken all the mystique and thrill out of Swiss banking. You've told it all. Swiss banking is now naked, fully exposed, explicitly revealed. Is nothing secret? What! Numbered accounts are just like any other account with no hidden advantages? *Anyone* can open a Swiss account by mail with a lousy hundred bucks? Swiss accounts aren't just for criminals and tax evaders, but for us law-abiding citizens too? Curses!

But Harry Browne is not all villain. With ubiquitous light comes unknown gems. Take Swiss custodial accounts, for instance. Did you know that you can have your Swiss bank put aside your money in practically any currency (Swiss francs, what else!), place the bills in an envelope, mark it with your name and account number, and transfer it to the bank's vault? The envelope of money bills is *your property*, not the bank's; so even under bankruptcy, the bank is legally barred from using these funds to pay outstanding debts. 'Tis not possible with most U.S. banks, where money you deposit becomes the property of the bank. You become the creditor; the bank, the debtor. Not so with a custodial account at your local Swiss bank.

Or how about the multicurrency checking account, where you can write a check in pounds when in England, in marks when in Germany, or in dollars when in America—all with the same blankety-blank checkbook? Great for the happy multinational, isn't it?

All this simply points to the extraordinary, diverse services of Swiss banking, far in excess of the provincial banking in the United States. Our banks won't store your gold and silver (let alone sell it, in most cases), won't sell and buy stock securities and commodities (by legal restrictions), and won't pay interest on checking accounts (except in New England). Yet Swiss banks will do all that and more.

So much for the bizarre. Now for the renowned, which Harry details with alacrity. Why should American Joe Moneybags open a Swiss bank account? Harry has three reasons: protection, privacy, and profit. Translated, that means protection from government, privacy from government, and, best of all, profit from government—surely worthy goals.

But one really wonders how much of a white knight a Swiss bank is. Can it truly protect you from the government? Col. E. C. Harwood, who is most familiar with the Fed's dirty tricks, says that "agents of the U.S. have obtained almost unfettered dominion, direction, and control over the Swiss government and its agencies. You can forget what you have read about Swiss banking secrecy." Harry staunchly maintains that secrecy is still alive and well in Switzerland, but I'm not so sure when filling out IRS Form 4683 on foreign accounts . . . .

One point Harry fails to emphasize enough is that Swiss banking is *not* for the small investor. Swiss banks do nothing for free and will nickel and dime you to death if you invest a paltry $100-$1,000. If you don't have $5,000 to play with, Harry's book won't do you much good—except perhaps to set up a simple savings account. But be careful. I know of one person who left $700 in a Swiss savings account for over a year before finding out that it was below the minimum balance ($2,500) to earn interest!

But if you do have the dough, *Harry Browne's Complete Guide to Swiss Banks* is indispensable. He surveys dozens of Swiss banks, from the largest to the smallest. Since Swiss accounts are not insured, Harry provides his own stringent liquidity tests to determine their ability to withstand severe monetary upheaval and management problems. For U.S. clients, he recommends only medium- and small-sized banks —Cambio & Valorenbank, Banque Indiana, and two Deak-owned banks, Foreign Commerce Bank and Bankhaus Deak in Vienna, among others.

Harry also provides excellent tax counsel that has not been readily available. As in his previous bestsellers, he also offers his own investment advice, which can be summarized as follows: buy gold (20 percent of assets!!), buy silver, buy Swiss francs—and store them in a Swiss bank. It's an old story by now, and Harry is still flying high on the 1971-74 primary bull market in these categories. For those of us unfortunate souls who followed his advice *after* 1974 and lost money, well, all Harry can say is that the decline in gold, silver, and Swiss francs is simply a short-run interruption of the long-run bull market. But, when, oh when, will the short run end? (Perhaps, dear Keynes, in the *short run* we're all dead too!) ◻

An economist by profession, Mark Skousen is managing editor of Inflation Survival Letter *and author of two books,* Playing the Price Controls Game *and the* 1977 Insider's Banking and Credit Almanac.

YOU CAN SURVIVE ANY FINANCIAL DISASTER. By David Smyth. Chicago: Henry Regnery Co. 1976. 252 pp. $10.

Reviewed by Gary North

Ever since Harry Browne scored his publishing coup with *How You Can Profit from the Coming Devaluation* (1969), the book markets have been, if not flooded, then at least drizzled with survival-oriented books on investing. I have recently cranked out one myself. Perhaps we can look forward to a book called *96 Ways You Can Make a Killing after an Atomic Attack.* The subtitle of Mr. Smyth's book seems to promise almost as much: "Strategies To Beat Triple-Digit Inflation, Severe Depression, Even Wartime Catastrophes." Amazingly, the book really does come close to providing what the cover promises.

Smyth is the World Services Financial Editor for the Associated Press. He is nevertheless a certifiable gold bug, anti-Keynesian to the core. What he has done is to provide the reader with several strategies that ought to work in times of economic disintegration. Even more helpful, he provides names and addresses of the companies involved in selling the kinds of investments he recommends. You would be surprised at how few of the investment books really do tell you precisely how to go about setting up a survival investment program, from Swiss banks to money market funds to mutual funds that offer insurance against paper losses in the stock market. I, for one, had never heard of the French Pinay bond; it's indexed to the market price of the French gold Napoleon coin.

The book is well worth $10 and the time needed to digest its contents.

It is sad that the book wasn't brought out by a firm like Dow Jones-Irwin. It seems that Arlington House winds up publishing most of these titles. Regnery, another conservative publishing firm, has now entered the field. But the conventional houses are still woefully conventional, unless they have a guaranteed bestseller like a Harry Browne book.

For entrepreneurs who expect the worst, however, the absence of mainstream survival investment books for the general public to read is a distinct advantage. The gold debacle of 1975-76 scared newcomers to the disaster investment markets (since these markets became mini-disasters themselves), and the public at large is still unaware of the effects of Keynesian economic policies in a world based on an extensive division of labor. Smyth's book is an excellent introduction to disaster hedging, but I doubt that it will become a bestseller.

The introductory chapters are quite convincing to the initiated, and I suspect that the uninitiated will be impressed. He discusses the causes of price inflation (government-produced fiat money) and the inevitable results of price inflation, especially the disintegration of the capital markets. Smyth grew up in Argentina and saw his father's investments (with the exception of the apartment he lived in) evaporate. Now it's about to happen here. "The decline of the dollar is a story of growing delusions of grandeur in Washington, and its decadence will continue for as long as those delusions persist." The rising expenditures of the modern State have made escape impossible for the politicians. They have to spend. Reducing budgets is politically impossible. "Eventually, of course, such a system will destroy itself." Given this premise, what can an investor do?

First, put your money into gold and silver coins. Second, do not become a long-term creditor. Do not buy long-term bonds, annuities (except Swiss annuities), mortgages, and so forth. Forget about your dollar-denominated pension. Forget about social security.

He is conventional enough to recommend the stock market, so long as price inflation stays under 8.5 percent per annum. He recommends foreign stocks and mutual funds. (This is especially pertinent advice once price controls are imposed in this country.) Buy Treasury bills, preferably 90-day bills. Don't invest in any government debt certificates that have maturities longer than one year. He calls bonds "certificates of guaranteed confiscation" quoting Franz Pick.

He tells us how we can get into Swiss francs during a dollar-glutted Swiss moratorium. Every once in a while, the Swiss put negative interest penalties on large foreign deposits in Swiss banks. The answer is to open a Swiss franc account in Austria's Bankhaus Deak, Rathausstrasse 20, A-1010, Vienna. Ah, the wonders of the international money market! Even the Swiss, in moments of monetary statism, can't stem the tide.

How about a Lombard bond, some of which are still around? The idiots who created it had faith in the IMF, with its statist system of fixed exchange rates (price controls) among fiat currencies. They felt confident when they offered bond holders the right to take their interest payments in the currency of their choice. That was back in the days of plus or minus two percent swings between currencies. You buy these bonds with dollars, and if your chosen currency jumps by 10 percent, you can reap the rewards. Needless to say, they aren't issuing these bonds any longer. But there are others that do provide a measure of protection against currency fluctuations. Smyth tells you which ones they are.

Socialism is coming. War may be coming. You are better off in a rural community or a town under 50,000. Public utilities will be strangled by public pressure against rate increases, so find yourself alternative energy sources, meaning decentralized energy sources.

"The time to act," he writes, "is before disaster is at hand, when the world is at peace, when it is still easy, legal, and socially acceptable to do so." Keep some of your assets in a neutral nation. Pay cash for gold and silver coins. Leave few records. He doesn't recommend guns, but the rest of the survival list is intact.

The book is well written, logically constructed, highly informative. It can be used to scare your Aunt Martha into pulling some of her savings out of her AT&T bonds, 2003. It can also be used by those who are quite familiar with doom and gloom investing. If you were to own only two books on survival investing, this would be one of them. (I am too modest to mention the other.) □

Gary North edits Remnant Review, *a biweekly newsletter, and writes on a regular basis for the* Ruff Times. *His latest book is* How You Can Profit from the Coming Price Controls *(Loopholes Press, Box 1580, Springfield, VA 22151; $10).*

THE FEDERAL RESERVE AND OUR MANIPULATED DOLLAR. By Martin A. Larson. Old Greenwich, Conn.: Devin-Adair Co. 1975. 289 pp. $4.95.

Reviewed by David H. Rogers

Imagine that while scanning the shelves of a library or bookstore, your eye is caught by a new book on a subject that has always fascinated you. Intrigued, you turn eagerly to the introduction—and find the author claiming that the book's subject is one that "the finite mind simply cannot comprehend."

Of course, this tends to provoke a number of reactions. My first was to thumb through the rest of the book, expecting to find only blank pages. After all, I reasoned, if the author could be taken at his word, then he would surely have packed away his pen and excused himself as soon as he finished that phrase. Surprisingly, this was not the case. The text continued for more than 250 pages.

Now my curiosity was *really* piqued. Could it be? Visions of Moses's tablets raced through my mind. Eagerly I eyed the front cover: Martin A. Larson, author. A pseudonym, perhaps? Unlikely.

With heavy heart, I concluded that Dr. Larson was merely indulging in a bit of hyperbole. It must be quite flattering to see oneself as having written a treatise on a subject of inexpressible complexity.

The book—*The Federal Reserve and Our Manipulated Dollar*—is in two parts. The first allegedly chronicles the historical background, inception, growth, and present influence of the Federal Reserve System and of monetary policy on the American economy. The second, of equal length, presents summaries of some previously published arguments by several economists and social pundits on the desirability (or lack thereof) of a gold standard. Because the first section is unquestionably the heart of the book, I will direct my comments exclusively to it.

Let me first summarize Larson's basic position, borrowing the same tone of voice that permeates the book. The Federal Reserve System, he informs us, was and remains a creature

of the international financiers, a clandestine group of evil, treasonous, and parasitical manipulators whose stranglehold on the American economy has been used to bilk the common people of billions of dollars.

All the classic elements of an undiluted and simplistic conspiracy theory of history (or a pulp novel) are here: the bloated capitalists (mainly European central bankers and Wall Street investment bankers); U.S. presidents who are unthinking pawns in the money-crazed machinations of the financiers; the infamous but unidentified Bilderbergers, who "meet annually in profound secrecy to determine the destiny of the western world;" and so on, ad infinitum.

I do not present this cast of characters in jest, but rather to illustrate that the author's claim to have written a "complete, critical but objective" history of the Federal Reserve System is ludicrous. (If conspiracy theory-histories of the Fed are your cup of tea, however, *Mullins on the Federal Reserve* gives a most entertaining account of the nefarious deeds of the Fed's founders. The library at your Federal Reserve District Bank will undoubtedly have a copy.)

But Larson's book is more than a "history." It also attempts to explain how the Fed and the commercial banking system operate. Unfortunately, the author's treatment of monetary policy and bank operations demonstrates little more than gross ignorance of the subject.

For example, one of the key elements of commercial banking is portfolio management: the way in which banks adjust their assets and liabilities to improve their returns, reduce risk, etc. Banks' most important assets are loans and government securities, holdings of which are influenced by these assets' yields, loan demands by businesses and households, available reserves, etc.

Several times in the book Larson claims that member banks (i.e., commercial banks that are members of the Federal Reserve System) "obtain government securities for nothing." Because these securities pay interest, the banks have thus found a fool-proof method of earning enormous profits. As Larson notes, with typical understatement, "No wonder, then, that banks can construct vast towers that pierce the very sky."

Consider this oft-repeated claim for a moment. Even if you know absolutely nothing about banking, does it make sense? To "buy" anything for no cost implies that the "seller" is giving that thing away for nothing. Since the government initially sells securities—that is, borrows money—to finance deficits, what would be the value of selling securities to banks if the government received nothing in return for them? Would private sector nonbank owners of government securities trade these securities to banks in return for nothing? The answer is obvious.

But Larson is really claiming that, through some sort of bookkeeping manipulations, member banks somehow magically create the money to buy government securities whenever the need arises. This would presumably permit member banks to pay for the securities without *really* paying for them.

Yet this also is nonsense. If it were not, banks would presumably do nothing but "buy" millions of dollars of securities every day, for nothing, then sell them to nonbank buyers at their market price, repurchase them for nothing, sell them, etc. Potential bank profits would be limited only by the number of hours in the day, and ultimately almost everyone would switch into the banking business in order to clean up at everyone else's expense. The prospect is amusing, perhaps even a great plot for a humorous science fiction short story. But for it to be offered as an example of actual bank operations since the inception of the Federal Reserve System is not so amusing.

The book makes several other claims that are nearly as ill-conceived. We are informed, for example, that the Federal Reserve System "sets interest rates for the entire economy," has virtually complete control over these rates, etc. Of course, there is probably no economist who does not recognize that the Fed can influence interest rates through monetary policy and certain of its regulatory powers. But the claim that the Fed has next to complete control over interest rates is at best an enormously misleading oversimplification. It ignores almost all of the basic elements of interest rate determination: the supply and demand for funds by corporations, households, private financial institutions, all levels of government, and foreign investors; the duration of the loans; their riskiness; the international character of the financial markets; and so on.

In short, the book's economic analyses are almost bad enough to make the historical sections look scholarly by comparison.

Finally, the book contains a number of little tidbits, presented without supporting evidence, that will be invaluable for a game of trivia at the next dinner party you attend. (Don't expect to be invited back.) Did you know that "it was widely rumored that" FDR blew his head off with a shotgun in Warm Springs and that it was "a fitting end for a tyrant gone mad with egomania"? Or that the only reason LBJ won by a landslide in 1964 was that he was a crook who stole the election? Or that the Fed must be awful because Paul Warburg helped to establish it, and "it has been stated on good authority" (never specified, of course) that Paul's brother helped Lenin cross Germany to Russia "in a sealed train in 1918"? (This is particularly noteworthy in that Lenin is known to have taken his famous train ride in 1917.)

Suffice it to say that if someone were to read this book on the assumption that its scholarship and objectivity were representative of all gold-standard advocates, he would inevitably conclude that the pro-gold position (of which Larson fancies himself a spokesman) is pure hogwash.

Perhaps the publisher, Devin-Adair, is secretly controlled by those bloated international financiers? ◧

David H. Rogers is an economist with B.F. Goodrich in Akron, Ohio.

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LETTERS

(continued from page 13)

ertarianism into 'economistic' and 'humanistic' approaches." I agree that the controversial nature of the book is due to a split within libertarianism, but Sharon, I fear, is quite wide of the mark when she refers to "economism" (all human action can be explained in terms of economics) and "humanism" (other factors also need to be taken into account). If this is all there were to it, "humanism" would obviously be correct, for surely all human action cannot be accounted for in terms of economics alone. Actually, "humanism," as employed by Presley, is just a substitute for serious analysis. For example, she takes me to task for saying that "the prostitute obviously prefers her work, otherwise she would not continue it" on the grounds that "serious sociological and psychological literature shows that women are far more likely to become prostitutes out of financial and psychological desperation . . . and are not all 'happy hookers'." But my statement in no way implied that prostitutes do not have reservations and qualms about their work; only that *given* the wages, hours, working conditions, and their *other opportunities,* they prefer prostitution to other professions, in spite of its obvious drawbacks. This is part and parcel of what Ludwig von Mises meant by human action: choosing and setting aside, picking the one opportunity out of all those available that one prefers the most, after the good and bad points of each are weighed. What's so schizophrenic about that?

No. The split in libertarianism concerns one of definition. In my view, a necessary and *sufficient* condition of our philosophy is adherence to the principle of nonagression against nonagressors. In the view of Ms. Presley and some of my other critics, this is a necessary but not a sufficient condition. In addition, all sorts of other things are also *required,* depending upon whom you talk to: benevolence, niceness, kindness, humanism, psychological awareness, openness, love, understanding are some of the more usual requisites. In the *limited* view of libertarianism that seems correct to me, an obnoxious, uncooperative, unliberated, prejudiced, hateful person *could* act in accordance with our principles, provided *only* that he scrupulously refrained from the initiation of force against noninitiators.

One thing that always drives Sharon to apoplexy, in her several reviews of my book is my use of the word "hero" to describe such as the blackmailer, litterer, speculator, profiteer, slanderer, and some other dozen of their ilk. She objects on the ground that a heroic act implies the attainment of intrinsically great values, and not merely the riskiness, great benefits conferred, and opposition to wrongful statist prohibitions that many of my examples can lay claim to. But Webster's defines "hero" as "a person of distinguished valor or enterprise in danger or fortitude in suffering"—surely in keeping with my usage. And what of the objection that some of my own examples do not even fit my own criteria? ("To suggest that the miser, inheritor, and litterer undergo great risk is just plain silly.") I would recommend that Sharon attend a college economics course on Keynesianism to see how the miser is treated; read any Marxist on what to do with the "problem" of inheritance, and see what they have done with inheritance taxes in England; and travel on any of our highways, where litter is punishable by $100 fines, jail sentences, and the scorn of the community.

Ms. Presley attacks *Defending the Undefendable* for *not* including a chapter on the racist as hero. Surely this must rank in the annals of book reviewing as anomalous: criticizing not what is in it, but what is *not.* She might as well have demanded chapters on nudism, vegetarianism, or nazism, none of which were mentioned. She also rues my "implication that the use of coercion among pimps is no more serious a problem than the occasional bank embezzler" as "truly bizarre." I agree. This is truly bizarre. But this was nowhere implied, much less stated. What I *did* say was that "the (coercive) actions of any one, or even of all pimps together, cannot legitimately be used to condemn the profession *qua* profession, *unless the action is a necessary part of the profession,"* and then went on to deny that this was so.

Then there is the accusation of unclarity on the issue of charity, and of "coming along and saying that charity is evil." But on page 137 I say "Contributing to charity is not in itself evil. When it is a voluntary decision on the part of responsible adults, it does not violate an individual's rights." What could be more clear? I do not contend, however, that the Darwinian laws still apply to modern society; but that unlike in the past, when hand-to-hand combat skills and other "cave man" abilities were selected out for continuation, survival characteristics nowadays include non-allergy to smoke and other strains of modern living, but not necessarily good eyesight and healthy teeth. Why is this "collectivistic, repellent, inhumane, and nonlibertarian?" It's *true,* for goodness sake. Sharon doesn't seem to realize that "survival" in Darwinian theory means only success in leaving children behind, not in killing anyone else. Mice and butterflies were more successful in leaving progeny behind than were the dinosaurs; but they certainly did not kill them! Her comment about "Block expecting large sections of the populace (to be) eliminated" is thus a misunderstanding. Nor does "evolution work through the population group, not the individual." It is surprising that someone so concerned with individualism should fail to grasp the methodological individualistic point that *all* social science phenomena can work *only* through individuals, not groups. Only individuals can make choices, decisions; only individuals are capable of human action. So-called "group action" can only be undertaken by the individuals that compose the group.

I cannot accept Ms. Presley's continual overconcern with "humanism" and her fears that I am "ruining things" as far as converting the bleeding heart liberal types who hate property rights and love charity above all else. There may have been a time, although I doubt it, when it made good strategic sense to downplay our commitment to property, the free market, capitalism, etc., and to avoid a frank appraisal of charity, etc., out of fear of trampling upon the tender sensibilities of the liberal do-gooders. If there ever was, I think that time is past. Now that we are a mature political movement, I think we can well afford to give vent to our own methods of analysis and modes of expression.

But this is all beside the point. I am personally not interested in converting or convincing anyone. I am only concerned to start with the libertarian principle of nonaggression, and to trace out the logical implications of this glorious premise. In *Defending the Undefendable,* I try to "follow my own libertarian star." I am sorry that the book has "sparked quite a bit of controversy" and vituperation. When I wrote it, I never anticipated such a response. When Hayek wrote me, in response to an early draft of the book, saying that "popular fallacies in economics frequently express themselves in unfounded prejudices against other

(continued on page 80)

MOVIES

• Art Carney and Lily Tomlin give Oscar-level performances in **THE LATE SHOW**, a wry updating of the sturdy private eye genre. Carney plays an aging gumshoe, battling both the forces of evil and the ravages of time. Tomlin is a tripped-out Hollywood trendie, spouting astrology, mysticism and new wave psychology in equal doses. Not the least of the delights of this movie is the language barrier between Carney's early-day Marlowe and Tomlin's latter-day hippie. The convoluted plot, with multiple murders, double-crosses and unexpected twists, keeps events moving at a brisk pace. Screenwriter and director Robert Benton has done an excellent job of blending two widely disparate lifestyles into a unique relationship. Rated "PG."—**Charles F. Barr**

• **AIRPORT '77** is as exciting as a roller coaster ride, and as shallow as the water in which a hijacked jumbo jet sinks after crashing into the sea off the coast of Florida. An all-star cast is trapped in the plane's pressurized cabin, and its members react in various ways, from the haggard heroics of pilot Jack Lemmon to the neurotic frenzy of Lee Grant. George Kennedy as Joe Petroni, the sole holdover from the other two *Airport* pictures, has little more than a cameo here. James Stewart is grounded as the millionaire art collector who owns the luxury-appointed 747 jet, and whose daughter and grandson are aboard the sunken aircraft. The visual effects are stunning, especially the crash landing at sea and the Navy's efforts to raise the sunken plane before the passengers die of suffocation or drowning. The plot is strictly disaster-film formula, but *Airport '77* is good for a few laughs and a bit of excitement. Rated "PG." –**C.F.B.**

Brenda Vaccaro struggles to calm an hysterical Lee Grant in AIRPORT '77.

• As an irate reviewer said, **THE EAGLE HAS LANDED** should have been titled "The Turkey Has Landed." That pretty well sums up this mangled attempt at an historical thriller about a Nazi plot to kidnap Winston Churchill during World War II. The first half of the film unfolds a credible premise and a logical sequence of events. But it all falls apart when the scene shifts from Germany to England. The plot to kidnap Churchill fails long before the film ends. The remainder of the movie is padded with purposeless violence, a jarringly out-of-place low comedy sequence with Larry Hagman as a demented American officer, and a hackneyed and cliched final scene. Donald Sutherland lends some interest as an Irish revolutionary aiding the Germans, but Michael Caine is largely wasted as a semi-good-guy German officer. Jenny Agutter, as Sutherland's instant love interest, manages to look pretty and act stupid in the film's most thankless and ridiculous role. Rated "PG." –**C.F.B.**

LETTERS

(continued from page 79)

occupations, and in showing the falsity of these stereotypes, you are doing a real service, although you will not make yourself more popular with the majority," I thought he meant the majority of *nonlibertarians.* I never imagined that people calling themselves libertarians would even question the general thrust. Trite as it may sound, I can only say to Ms. Presley: I write the truth as I see it, offensive as it may appear to some people.

Walter Block
Newark, NJ

Ms. Presley replies: In their responses to my review, Rothbard and Block merely repeat the standard invectives which they have previously leveled at even the slightest hint of deviation from the Block-Rothbard plumbline. The amazing combination of straw men, misdirection, sly innuendos and worse to be found in their most recent efforts is typical.

The "point-by-point defense" Rothbard claims he has made elsewhere *does not exist,* if what he means by this is a refutation of my arguments in *Laissez Faire Review.* In Rothbard's chief opus on the Block book (*Libertarian Forum,* Oct., 1976), he dismisses my LFR review in three sentences as an "embarassment" and "hysterical verbal overkill." Point-by-point, you see. Yet my LFR review contained substantive points similar to the REASON review and has been praised by a large number of libertarians, including Rothbard's associates, Leonard Liggio and Joe Peden.

Re: "economism." Just as scientism, as discussed by Hayek, is the

(continued on page 87)

WASHINGTON WATCH

COALITION FIGHTING ELECTION LAW "REFORM"

Since the announcement of President Carter's election law "reform" package (which might more accurately be termed the nationalization of elections) an interesting informal coalition is emerging in opposition to it. Liberal and conservative groups (National Committee for an Effective Congress, Environmental Action Fund, National Conservative Political Action Committee, Committee for the Survival of a Free Congress, etc.) are together in opposition to restrictions on political action committees, especially ideologically-oriented (as compared to business or labor) PAC's. The liberals don't want to come out against public financing, however. Meanwhile a coalition of conservatives and libertarians is emerging to fight the whole package, while a separate but interrelated coalition of libertarians, liberals and Gene McCarthy supporters is forming in opposition to the public financing aspect. McCarthy himself has vowed to get involved in the battle personally and intensively.

It's becoming increasingly obvious that election reform is designed to entrench the moderate wings *cum* labor sympathizers of both major parties in power while having a chilling effect on even slight ideological deviants (even those just a little more liberal or a little more conservative than the establishment consensus). Those whose dissent from orthodoxy goes deeper, such as libertarians or McCarthyites, will have an even more difficult time of it if the Carter proposals become law.

This is a good issue on which to write your representatives. A major campaign against the legislation is in the works, and it will be interesting to see what kind of clout this unusual alliance has. By all means, identify yourself as libertarian if you are one. (Senate: Washington DC 20510; House: Washington DC 20515)

For further information you might write to the Emergency Coalition to Save Free Elections (1835 K Street, N.W., Washington DC 20006).

DON'T LET UP ON DRAFT AND NATIONAL SERVICE

I talked last week to a staffer on the Senate Armed Services Committee. The poor young thing was distressed. "There isn't even any legislation introduced or hearings scheduled, and we keep getting letters against any new draft. What are these people worried about?" That's a bit disingenuous. We have plenty to be worried about. The draft and its companion, universal compulsory national service, are very much live issues. They won't do it right away, but they're laying the groundwork to put one or the other in place quickly when the time comes. The letters in opposition do help. Keep them coming.

Good targets for letters include: Senate Armed Services Committee, Manpower and Personnel Subcommittee; Sen. Sam Nunn (D-GA); Sen. James Stennis (D-MI) and Sen. Dewey Bartlett (R-OK). As well as your own Senators and Representatives. (U.S. Senate, Washington DC 20510).

MILITARY PENSIONS

When you're writing about military pensions, you're sure to get letters. I have, and I've been caught in an error. Military retirees do not retire at full pay, as I suggested. After 20 years they get 50 percent of base military pay, and the percentage goes up with more years of service. It's just that to some of us $15,456 per year (the average retirement pay for officers retiring as of 6/30/76) seems almost like a full salary. The figure for enlisted men is lower ($6,456 per year).

The real objection to the military retirement system is that it starts paying a pension (or "retirement pay"—same thing) as soon as the retiree leaves the service, when most of them are perfectly capable of earning a living at something else (and most do). In Fiscal Year 1975, for example, 28.3 percent took retirement while they were in their 30's; 61.1 percent while in their 40's; 10.3 percent while in their 50's; and only 0.3 percent while in their 60's. Someone in his 40's with a base pay of $15,000 per year for life is going to be doing pretty well when he gets another job.

Military retirees do very well indeed. Recent figures estimate that the average retired officer will get $330,000 in retirement pay *before* he reaches the "normal" retirement age of 65. The average retired enlisted man will get $150,000. Not bad for 20 years work. In fact, for 20 years work, the average military retiree gets seven times more in retirement benefits than the average 20-year worker in private industry.

Two final jabs. One writer wrote that the average military retiree is getting only $6,600 per year. The figure is $6,648, and includes those retired on various kinds of disability and all those retired since 1948. The relevant figure is what those retiring *now* are getting, and it's much higher. Finally, the Bureau of Labor Statistics estimates that in private industry fringe benefits are (very conservatively estimated) 55 percent of the basic compensation.

And this discussion doesn't even touch on the number of military retirees who are "double-dipping" by collecting a military pension while on government payrolls in civilian jobs (many of them in the Pentagon). The figure for this year is 109,000 compared with 72,000 in 1972. For more information than you'll be able to digest on double-dipping, you might write to Sid Taylor, National Taxpayers Union (325 Pennsylvania Ave., S.E., Washington DC 20003)

FIGHTING DEPROGRAMMING

A new organization has been formed to fight against "deprogramming," the increasingly prevalent practice in which parents of kids who are adherents of quaint religious sects (Moonies and Hare Krishnas are the chief targets, but some fundamentalist sects have been hit too) pay deprogrammers to take the kids and "persuade" them that they don't believe that stuff anymore. These sessions often involve physical torture and starvation. There has already been one documented case of a kid "deprogrammed" from his political beliefs.

With a recent San Francisco court decision which granted parents of Moonies *over 21* the "right" to seize their kids and have them deprogrammed, this issue could become increasingly relevant. For information, write to Carol Gallo, Coalition to Preserve Religious Freedom, 2025 R St., N.W., Washington DC 20008.

Alan Bock

Alan Bock is director of Libertarian Advocate, a Washington-based pro-freedom lobbying organization.

SPOTLIGHT

One weekend in early March, a group of distinguished libertarians assembled at Harvard Law School to discuss issues of crime and punishment. Their conference would have been like many other high-powered libertarian gatherings—except for the presence of other luminaries as well. For two days, leading libertarian intellectuals such as John Hospers and Murray Rothbard rubbed elbows and ideas with Professors James Q. Wilson, Edward Banfield, Walter Kaufman, and other prominent non-libertarian theorists.

The possibility of such an exchange might have been remote a few years ago. Today, however, a brilliant young libertarian named John Hagel is actively searching for opportunities to make libertarian ideas heard in left and right-wing academic circles. As president of the newly formed Center for Libertarian Studies, with an annual budget approaching $150,000, he has forged a vehicle to encourage cross fertilization among some of the finest minds around, libertarian and otherwise. His Center has played a key role in organizing such events as the Libertarian Scholars Conference, sponsored last year by the Liberty Fund, as well as the Harvard Law School gathering. It also publishes papers covering a number of disciplines, puts out a new scholarly journal every four months called the *Journal of Libertarian Studies,* and offers a newsletter on the progress of libertarians in academia.

The idea for the Center was born in the living room of Murray Rothbard in September, 1975. With the help of Walter Grinder, now executive director of the Center's full-time staff of three in New York, Hagel sought to test a new strategy for promoting libertarian thinking. Rather than attempt immediate conversions, the Center aims for acquainting sympathetic non-libertarians with explicitly libertarian stands on issues, in an atmosphere that underscores similarities rather than differences. "We are the first explicitly libertarian scholarly organization," Hagel says. "Our strategy in dealing with academics in general is to emphasize areas of agreement, and build on them when possible. We are not trying to be exclusionary in our approach to scholars."

So far, the approach has been paying off. As a result of the conferences, a diverse group of left and right-wing theorists has become excited by the new thinking it has found among libertarians. Carl Oglesby, an early president of SDS, and Dr. Earl Ravenal, a well-known proponent of non-interventionism at the Johns Hopkins School of Advanced International Studies, profess to greatly like what they have seen. Ravenal, a member of the advisory board, is now preparing a major monograph on foreign policy for the Center. The widely respected conservative sociologist, Robert Nisbet, who was featured at the Libertarian Scholar's Conference last fall in

JOHN HAGEL

New York, has also agreed to become a member of the Center's advisory board, joining Nobel Laureate F. A. Hayek, Harvard philosopher Robert Nozick, psychiatrist Thomas Szasz, and former *Washington Post* editor Felix Morley. A measure of the seriousness with which Hagel's efforts are being taken is that two publishing houses leaped for rights to the proceedings of the Harvard conference on crime and punishment. Ballinger's, the publisher chosen, has agreed to publicize the book extensively.

Hagel's own approach to libertarianism has been as eclectic as that of his advisory board. At Wesleyan University in Connecticut, where he graduated *magna cum laude* in 1972, he had the distinction of belonging to Young Americans for Freedom and the Students for a Democratic Society—simultaneously. (Both had been taken over by libertarians.) In addition, he was elected president of the student government, and helped run the college newspaper.

After winning a major scholarship award, Hagel moved to Oxford University for graduate studies, researching the Algerian government's initiatives in raising the world price of oil. He plans to incorporate the research into a forthcoming book that will double as a Ph.D. thesis. "Technically, I am still a Ph.D. candidate at Oxford," Hagel says. "If the book is accepted as a thesis, then I become a Ph.D." It will not be Hagel's first time in print. Praeger, a major New York publishing house, contracted with him to produce a book that was released in 1976. Titled *Alternative Energy Strategies: Constraints and Opportunities,* it discusses approaches for increasing the role of market forces in national and domestic policies.

Although pursuing a Harvard Law degree, a Harvard business degree, and an Oxford Ph.D. at the same time would seem likely to exhaust anyone, Hagel still has time to spend 10-15 hours per week on the Center for Libertarian Studies. He has other pastimes as well. For the past three years, he has spent summers working for the Develapa Corporation, a company negotiating large construction projects in the Mideast, and continues to consult for them while at Harvard. Hagel regularly reads publications in Arabic and Italian, has a grasp of Swahili, and is fluent in French and Spanish. What spare time is left he spends scuba diving, or contributing occasional articles to libertarian publications.

The remarkable range and depth of Hagel's activities seem likely to continue. Once he graduates with a joint degree from Harvard next year, he intends to become a consultant on international energy problems, while helping the Center for Libertarian Studies to grow. And his Ph.D. from Oxford will leave open the possibility of someday becoming a full-time scholar. "My decision not to be an academic was based on the fact that to be a libertarian academic now is usually to be an embattled, lonely person," he says. Thanks to Hagel and his Center, these circumstances increasingly seem likely to become a part of the past. ◻

COURTS AND THE TAXING POWER

Tax rebels who are pursuing fundamental legal challenges to the Federal income tax are engaged in an exercise in futility. No matter how logical, how historically sound the arguments, the government's need to support itself through taxation is a fundamental "political question" of the sort courts have traditionally refused to entertain. I do not believe any court, even the Warren Court in its heights of judicial meglomania, ever believed it was "constitutionally" permitted to strike down the major source of government revenue.

Anyone who believes that the Federal income tax will be struck down by a court once it understands that Federal Reserve Notes are not lawful money, or that the form 1040 violates the Fifth Amendment, or that the Sixteenth Amendment is not part of the Constitution because Ohio was not part of the union until 1954, simply does not understand what courts do.

All that these challenges do is clutter the casebooks with pronouncements upholding the taxing power of the government. Should, by some miracle, a future court be receptive to a challenge to some fundamental aspect of the taxing power, these decisions will have to be explained away before any progress can be made.

Or, to take another example, should some libertarian used car dealer convince a court that he is constitutionally indistinguishable from a church, the result will far more likely be that churches will also be taxed that that used car dealers will be exempt.

The government's power to raise revenue through taxation is not a justiciable issue. But, how they go about taxing is.

I believe that tax reform through the courts is possible if litigation concentrates on the civil rights aspects of tax administration. In the areas of collection and investigation the tax system raises a number of conventional civil rights issues which may be decided favorable to the taxpayer without involving the courts in any potentially serious disruption of the flow of revenue.

This suggestion will not appeal to tax rebels who want to bring down the government by cutting off its tax collections, or to purists who want to be able to keep everything they earn. My point is simply that they *cannot* obtain their ends through judicial challenges to the income tax and are wasting their time to do so. There are, however, some positive measures which can be achieved through the courts and these are the subject of this article.

We might begin by examining the justification for the rather amazing collection powers of the Internal Revenue Service, particularly with respect to seizures without prior judicial determination. Courts here have recognized that such practices raise serious constitutional issues in commercial debt collection settings In fairness to the I.R.S. it should be said that they seldom use their more extraordinary powers. On the other hand, the fact that they have so seldom used them may be evidence that they are not essential to the orderly collection of taxes.

Even more interesting questions arise with respect to the investigatory powers of the I.R.S. As it happens, the Service is presently engaged in seeking to establish by judicial precedent that their investigatory powers are coextensive with those of a grand jury, so that anything which a grand jury may do the Service may also do. This would be a very dangerous precedent to establish and one which would seem to be only marginally related to the overall efficiency of the tax system.

Another issue in which a taxpayer might be able to develop a favorable case involves the degree of the Service's interest in a potential criminal investigation necessary to taint an administrative summons for a taxpayer's records. As the law now stands, the Supreme Court has held that a court should not enforce an I.R.S. summons if it is issued solely in furtherance of a criminal investigation. Litigation might usefully be developed here to liberalize the judicial test for determining what facts constitute a sole criminal purpose.

Another example of a traditional civil rights issue emerged recently when a taxpayer learned that the Service had a file of his letters-to-the-editor clipped from local newspapers in which he complained of I.R.S. practices. The Service explained that these letters were kept in order to establish the intent of the writer to violate the tax law.

There are a good many other potential issues which tax reformers might concentrate on if they want to use the courts. There is the problem of the taxpayer/lawyer and taxpayer/accountant privilege, the problem of access to taxpayer returns for non-tax purposes, and the general problem of privacy and access to bank records.

These issues are ones which are in the mainstream of current constitutional development. They involve civil rights recognized by a broad spectrum of the community, witness the A.C.L.U.'s involvement in challenges to the Bank Secrecy Act. They are difficult issues, but ones in which favorable developments are possible, given time and effort and the willingness to abandon constitutional fundamentalism in favor of a realistic view of the role of the courts in protecting the rights of the taxpayer.

Davis E. Keeler

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EDITORIAL

(continued from page 8)

could it ban products that people desire from the marketplace. It would merely compile and make available information on safety and effectiveness —whether submitted by manufacturers, universities, independent labs, or others. In so doing it would serve as a prototype for the more specialized commercial information services that would subsequently develop. In order to prevent unfair competition with these services, the costs of this revamped FDA could be met via a system of user charges for the information, rather than from tax revenues.

Making choices that involve risk is the essence of human liberty. The FDA violates this human liberty every day by its arbitrary actions and decisions. If abolishing the FDA altogether has a ghost of a chance, we should advocate it. But if we conclude that people need a government security blanket a while longer, stripping the FDA of its coercive power would still be a major step forward. Limiting the agency's role to providing information would restore vital freedom of choice to every American.

ROBERT POOLE, JR.

FRONTLINES

THE NEXT MAYOR OF CHICAGO

When Richard J. Daley suffered a heart attack last December, the political animals in the Second City hardly waited an hour before announcing their candidacies to succeed him. His temporary successor is a weak figure whom the Ward Committeemen support because he is weak. This is the old paradigm of "the King vs. the Barons" and the suddenly liberated barons of the Democratic machine like the taste of freedom.

Chicago is popularly known as "the City which works," in contrast with New York or Detroit, we suppose, but this conceals a deep rot. Daley and the machine were always able to keep groups such as the unions and the business royalists satisfied, but at the expense of the city's ghetto residents and its industrial base. The barons may enjoy a few years of power and luxury, but Chicago is not likely to "work" much longer.

The Libertarian Party is running a campaign for mayor. Starting very late (when newspapers announced that the Federal district court had reduced the number of signatures required for ballot status from over 65,000 to 20,000) the Chicago L.P. printed petitions, literature, found itself a candidate, and hit the pavement. The issue is in the Federal district court again, because the city Board of Election Commissioners doesn't want the Democratic nominee to have libertarian competition.

The Big Two candidates are pretending that the election isn't happening. Nobody expects the Republican to win (the GOP in Chicago is about as weak as its sister organization in Atlanta), and he has almost no money. The Democrat isn't saying anything because, as Mayor Daley taught, to take a stand on the issues only makes people notice that some of them disagree with you. There is no candidate who appeals to the Lake Shore Liberals—except *Gregg Vavra*, if he wins the case in Federal court.

THE SOCIAL ISSUES

The largest campaign expenditure to date has been the reprinting of 5,000 copies of Ralph Raico's booklet, "Gay Rights, A Libertarian Approach." These were passed out at the annual winter carnival, the major social event of the season for Chicago's gay community. Over 7,000 people were there, 3,000 booklets were passed out, and 1,100 signatures were collected by about six libertarian workers in four hours. Fewer than 30 copies of the booklet were discarded by the crowd leaving the ballroom. The publisher of the major Chicago gay newspaper came up and identified himself as a Libertarian Party supporter.

Gregg Vavra circulating his petitions on the streets of Chicago

One theory of the campaign is that a special effort must be made to dispel any "conservative" image. The statewide campaign for Governor last year emphasized the taxation issue, but sample feedback has indicated that this was seen as a conservative position. A motivating idea is that the gay intellectuals, who can most easily appreciate the personal stake they have in libertarian issues, might be the copper wire through which the electricity of these ideas can enlighten the entire social class of intelligentsia. As socialism becomes more and more absurd as a proposal, there is an opportunity here.

The Chicago public schools have been under sharp criticism for many years, as reading scores have declined with regular precision. The Black community knows that the schools are not educating their children, the large Catholic ethnic communities are struggling to keep their private schools funded, and the Chicago Teachers Union (already paid above the median for the nation) is discussing a strike next September. The Libertarian Party is proposing the "separation of Education and State" and presenting the venerable voucher idea as an immediate alternative leading to total phasing out of the government schools.

The Chicago vice squad has long been a reflection of the conservative morality of the Mayor's office. Recently there was a round-up of prostitutes, closing of pornography bookshops, and the usual rhetoric about "our children." The Libertarian campaign has emphasized the fact that women only solicit on the streets because they can't advertise in the phone book. The proposal is to open up the massage parlors and the bordellos, to get the women "off of the streets." What could be more logical? One of Chicago's most famous madams, "Bunny," has endorsed Gregg Vavra for Mayor.

THE ECONOMIC ISSUES

The conviction of Mayor Daley's friend, Alderman Tom Keane, last year for bribery in connection with zoning laws, and the conviction of former Republican county chairman Floyd Fulle for extortion under similar circumstances, provides an opportunity to discuss the political corruption which always accompanies government regulation of the economy. The campaign emphasizes that it is not the men, but the system, which is to blame. The words "Houston has no zoning laws" are used in several contexts—jobs, revitalization of the neighborhoods, lower rents, and honest politicians.

The campaign is, of course, in debt. The court case has many expenses and publicity is nowhere near its full potential. The official ballot committee (registered with the authorities for reporting purposes) is the *Chicago Libertarian Assn.*, with L.P.I. Chairperson Milton Mueller as its head. Further information and donations can be exchanged through *P.O. Box 1776, Chicago, IL 60690.* If the Libertarian Candidate, Gregg Vavra, had even one-tenth the money the GOP candidate has, he would easily draw more votes. The election will be held June 7, 1977.

Joe Cobb

This column is concerned with an analysis of activities on the "frontlines" of the battle of political principles, and with news and ideas from readers. Please send materials to Joe Cobb, Box 1776, Chicago, IL 60690 for consideration and use in FRONTLINES.

publisher's notes

• **EDITORS' ACTIVITIES:** We'd like to report on some recent activities of REASON's three principal editors.

Editor Robert Poole, Jr. has been speaking to a number of groups in recent months. He gave presentations on cutting local taxes to the state convention of the California Libertarian Party in February and the LP's Rocky Mountain Regional Conference in April. His talk on the future of local government was one of the events at the Future of Freedom conference at the University of Southern California, also in April. In addition, Poole spoke on the natural gas crisis to the Libertarian Party in the San Fernando Valley. Poole's monthly column on cost-cutting innovations in local government, "Fiscal Watchdog," now appears in over 130 newspapers across the country. If your local paper doesn't carry the column, you can obtain a sample copy from the Local Government Center, 221 W. Carrillo St., Santa Barbara, CA 93101. Poole's column, "Brass Tacks" appears each month in *Dollars and Sense,* the monthly newsletter of the National Taxpayers Union.

Editor Manuel S. Klausner spoke about libertarianism and third parties at the California Conservative Union's 1977 Political Action Conference in March, and he debated the issue of censorship against representatives of Citizens for Decent Literature and the Los Angeles Police Department vice squad before the San Fernando Valley Young Republicans in January and the East Valley Republican Business Women's Club in April. He served as moderator of the Future of Freedom conference at U.S.C. in April and will speak to the Los Angeles Lion's Club on "The ACLU: A Libertarian Perspective" in May. In media appearances in Los Angeles, Klausner spoke about education and the problems of public schools on KPFK-FM's new weekly radio program, "Libertarian Viewpoint," in February, and he participated in a discussion of gun control on KCET-TV in March. A one-hour cassette tape of the sound track from a special T.V. show, "The Libertarian Party Speaks to the Issues," produced last fall in Los Angeles by the California MacBride for President Committee is now available for $5 from P.O. Box 71383, Los Angeles, CA 90071. The show featured Klausner with Nathaniel Branden and Diane Alexander on a panel questioning LP candidates Roger MacBride and David Bergland.

Senior Editor Tibor Machan recently codirected a philosophy conference for Liberty Fund, Inc., in which he presented his paper "Rational Choice and Public Affairs." Machan has papers out on Nozick and Rand in *The Personalist* (Spring 1977), on Rawls in *Philosophical Studies* (December 1976), on human rights in *The New Lugano Review* (October 1976), and on his escape from Hungary in *World Research Ink* (January 1977). Machan's plans include a Socratic Seminar at Liberty Fund, Inc. (in Indianapolis) on Nozick's work, with others such as Doug Den Uyl, Douglas Rasmussen, Murray Rothbard, Charles King, and Leonard Liggio; a lecture series on the assault on human reason for ISI at Lake Forest College near Chicago (August 21-26), and summer projects on egoism and philosophy and labor law. Machan has papers forthcoming on egoism in *Philosophia,* human dignity and law in the *DePaul Law Review,* and on due process versus government regulation in *The Journal of Social and Political Affairs.*

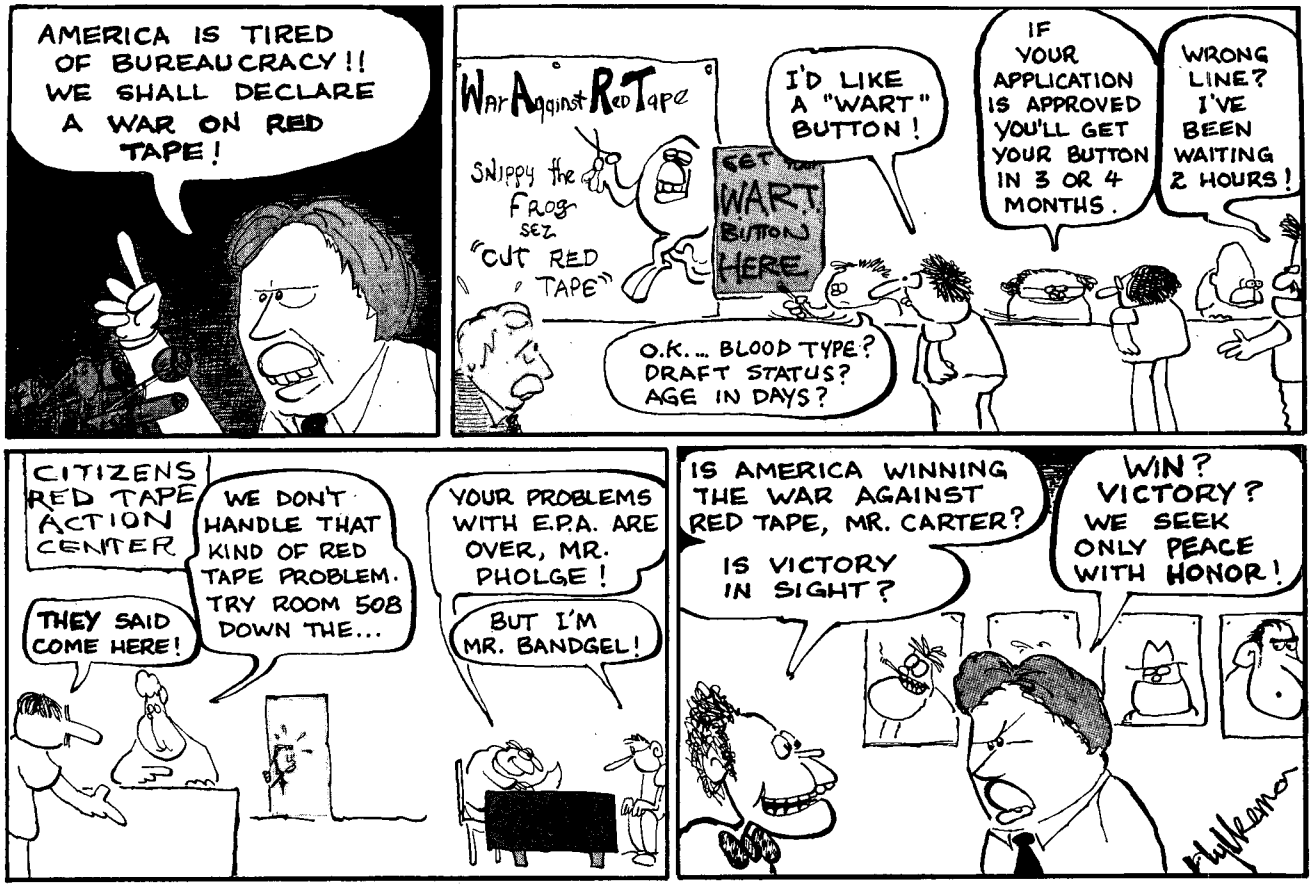
• **POSTAL MONOPOLY:** REASON has previously reported on the efforts of Robert Black of Pittsburg, Kansas, to challenge the constitutionality of the private express statutes. This month's Trends reports that another set of postal entrepreneurs has been hauled into court by the Feds. Like Black, Mr. and Mrs. Paul Brennan are fighting the government on constitutional grounds. And like Black, they have very little money to pay for the legal expenses of this court battle. They would greatly appreciate contributions from friends of freedom. Send your check to: P. H. Brennan Hand Delivery Co., 105 Warwick Ave., Rochester, NY 14611.

• **CONDOLENCES:** We were saddened to learn of the death by accidental drowning of actress Patrecia Wynand, wife of prominent psychologist Nathaniel Branden, at their home early in April. Our sincere sympathies are extended to Dr. Branden. ◻

"I pray we're never forced to use those weapons on an enemy."

rudebarbs

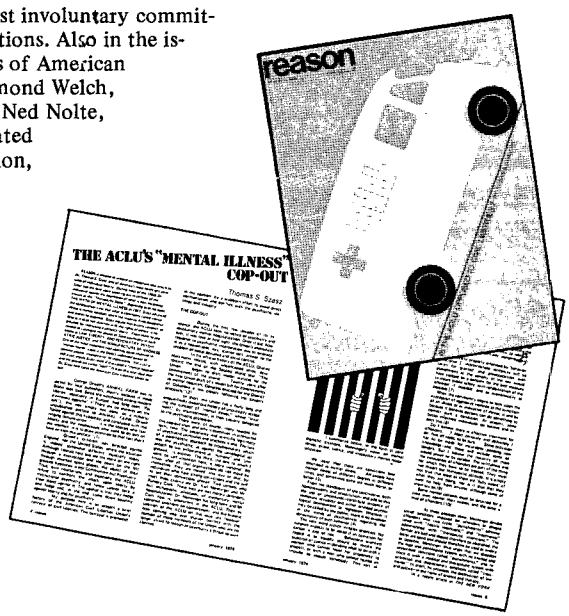
RANDALL K HYLKEMA


AMERICA IS TIRED OF BUREAUCRACY!! WE SHALL DECLARE A WAR ON RED TAPE!
War Against Red Tape
Snippy the Frog sez "CUT RED TAPE"
GET YOUR WART BUTTON HERE
I'D LIKE A "WART" BUTTON!
IF YOUR APPLICATION IS APPROVED YOU'LL GET YOUR BUTTON IN 3 OR 4 MONTHS.
WRONG LINE? I'VE BEEN WAITING 2 HOURS!
O.K.... BLOOD TYPE? DRAFT STATUS? AGE IN DAYS?
CITIZENS RED TAPE ACTION CENTER
THEY SAID COME HERE!
WE DON'T HANDLE THAT KIND OF RED TAPE PROBLEM. TRY ROOM 508 DOWN THE...
YOUR PROBLEMS WITH E.P.A. ARE OVER, MR. PHOLGE!
BUT I'M MR. BANDGEL!
IS AMERICA WINNING THE WAR AGAINST RED TAPE, MR. CARTER?
IS VICTORY IN SIGHT?
WIN? VICTORY? WE SEEK ONLY PEACE WITH HONOR!

Have You Seen...

JANUARY 1974 $1.00

This issue features outspoken psychiatrist Thomas S. Szasz, taking the ACLU to task for its failure to defend people against involuntary commitment to mental institutions. Also in the issue: a sobering analysis of American foreign policy by Raymond Welch, a New Year's satire by Ned Nolte, John J. Pierce on "created worlds" in science fiction, a review of *The New Totalitarians*, and a profile on contributing editor Alan Reynolds.



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LETTERS

(continued from page 80)

uncritical application of the methods of the natural sciences to problems for which they are inappropriate, so economism is the uncritical application of the methods of economics to issues for which *they* are inappropriate. An example of the absurd extremes to which economism can go is the claim by one prominent libertarian that in a free market society, where prostitution would be legal (and sex presumably more available), rape would no longer be a problem.

A humanist is "one who rejects the attempt to describe or account for man wholly on the basis of physics, chemistry and animal behavior." Individuals are seen as "irreducible organic wholes rather than a mechanical assemblage of parts" (quotes from *The Idea of Man* by Floyd Matson). Analogously, libertarian humanists recognize that some human actions require explanations that are not wholly economic and that some human actions cannot be explained in economic terms at all. Libertarian humanism attempts to understand the full range of human motivations and sees individuals as real human beings, not just textbook abstractions. It does *not* of course deny the existence of the supply and demand process; nowhere do I imply this and Rothbard is absurd to claim so.

Nor does libertarian humanism "require . . . niceness . . . openness, love," etc. as Block so cutely implies. But while it is at least theoretically possible to have a libertarian society full of misanthropes, I frankly doubt that a society where *most* people are authoritarian or misanthropic would long remain libertarian. One cannot artificially separate personal psychological values and attitudes from one's action and values in the political and social realm. But by these comments, I do not demand or require particular values of any individual, I simply state a sociological prediction. However, a libertarian society could no doubt support a *few* Walter Blocks without serious damage.

Block's appalling use of an out-of-context quote is the major defense he offers for his position on charity. The paragraph following the quote he mentions on p. 137 begins: "One of the great evils of charity . . . is that it interferes with the survival of the human species." and on p. 138, he continues ". . . charity of this type is undeniably harmful . . ." What could be *less* clear?

Further muddling this argument is Block's profound ignorance of biology (beginning with his astonishing identification of natural selection as a *social* science phenomenon). He seems totally unacquainted with the revisions made in evolutionary theory since *The Origin of the Species.* The "population group," for instance, is a term referring to the group of related individuals who among them constitute a gene pool of similar characteristics within a species—the chance survival or death of an individual thus only statistically increases or lessens the possibility of survival of the qualities in question, hence my remark about eliminating "large segments of the populace."

The *fact* of natural selection is not "repellent, inhumane and . . . collectivist" (even his quote is inaccurate); using "survival of the fittest" (something that concerns only a *group,* i.e., Homo sapiens) as a goal to justify condemning the individual act of charity *does* reek of collectivism.

A sterling example of economism in action is Block's remark about "methodological individualism," which is a tool of analysis appropriate for the social sciences but totally irrelevant to biology. Genes don't engage in human action. Mouthing century-old pseudoscientific cliches, he grapples with an idea in which he apparently has neither practical experience nor theoretical knowledge. *Practical* experience would tell him that a large part of the American social structure runs on charity and volunteer work, and that anywhere human beings are left to their own unregulated devices, they generally behave well towards one another (for their own self-gratification, of course). In the realm of *theory,* Block might study to advantage such passages as this one from Badcock's *Slaves to Duty:* " . . . voluntary help is a kind of natural selection . . . for the helpers select whom they will help, and to what extent . . ."

A word is in order here about the continual misuse of language and context by Rothbard and Block in the course of this feud. The term "prefer," for example, in economic parlance means only that one performs a particular action or makes a certain purchase; "prefer" is *not* a synonym for "like" or "desire." Thus when Block says that prostitutes "prefer" their work to the presumably dazzling career alternatives open to them, he either states a triviality, true by definition, or else builds platonic free markets in the sky, where, free of the psychological influences of our past and our present, we can choose without limitation.

Block's claim that I am attacking the book for not including a chapter on the racist as hero is not only dense but stupid. Obviously my point was not to demand such a chapter but simply to make a rhetorical point about Block's inconsistency by his own standards. The "logic" used in the male chauvinist pig chapter is more clearly applicable to the racist than the mcp but apparently Block would rather offend women than blacks.

And if one wants to speak of "the murky area of psychology," I might add that Nathaniel Branden was asked to endorse the book and *refused.*

But to further attack this book is simply to mar the corpse. Since I have no desire to help publicize this book any further and I find necrotomy rather tedious, I hope that this exchange will be the last of our debate.—**S.P.**

SCAPEGOATING RIGHT-TO-WORK

Tibor Machan, in his February Viewpoint, calls the "union shop contract" a voluntary practice and he also implies that "right-to-work" laws abridge freedom. These are the most astounding deductions ever peddled by the libertarian ivory tower (an ivory tower so fastidious about drugs and kinky sex)—(are working and eating, like money, too important to trust to liberty?). On what other subjects do libertarians support tyranny-of-the-majority? If a majority of workers can use state violence to enforce contracts between two bloodless creatures of the state (a union and a corporation) where can we fault any other majority force? It is an unfortunate consequence of legislative history that right-to-work has to go begging to state legislatures.

I am aware of the anti-right-to-work platform position of the Libertarian Party; but this awareness came too late to affect my joining, my contributions to the MacBride campaign, and my petition-bearing activities. The Party will likely see the light before the next election, but in the meantime be careful how you speak if you call me a libertarian.

Ira E. Marvin
Fairfield, OH

Dr. Machan replies: Shortly after my column went to press I read Prof.

(continued on page 88)

VIEWPOINT

(continued from page 73)

right to guaranteed employment at the taxpayers' expense. If it worked, such a policy would eliminate one source of discipline that restrains excessive wage demands—namely, the worry that such demands would reduce employment. More likely, the taxes used to finance more government jobs would simply result in fewer jobs in the private sector. And, as both Britain and New York City have demonstrated, the more the government becomes involved in employment, the less is its ability to govern.

Conclusion

In all of this discussion, one theme stands out clearly: the theme of *discipline.* The nation and the world have lost awareness of the discipline inherent in many traditions, institutions and rules.

The old rules may not have been perfect, but they may have been the best we could expect in a world of imperfect people dealing with imperfect information. We must either revive the old rules or develop new ones, since the alternative is policy by whim—bouncing from one problem to another, reacting in no predictable fashion. Such a policy creates paralyzing uncertainty among those real people that we so carelessly refer to as "the economy."

The economy need not be plagued by perpetual crisis. We are not at the mercy of blind forces. But if we continue to drift as we have in the past decade, we will almost surely stumble repeatedly into the old mistakes. ◻

Contributing editor Alan Reynolds is a vice president of the First National Bank of Chicago, where he supervises business and economic research.

LETTERS

(continued from page 87)

Thomas Haggard's excellent paper in *The Journal of Social and Political Affairs,* "The Natural Right to Work," and became convinced that in the main, with definite exceptions, right-to-work legislation is better than nothing in the context of the current situation in national and state labor law. The idea that in a free society, not in ours, it would be illegal for owners of a business to make an employment contract with a group of individuals, so that those not part of this group might not then be hired by the owners—this idea is clearly a contradiction. But it is indeed another matter how those already subject to various coercive laws might most effectively regain at least portions of their liberty. "Right to work" laws could, I now believe, constitute such a way with no violation of anyone's rights implicit through them.

I am sorry if I mislead reader Marvin and others.—**TRM.**

WHO'S LIBERTARIAN?

I noted in the March "Washington Watch" column a reference to Idaho's two conservative Republican Congressmen, Steve Symms and George Hansen, "who at least recognize the word 'libertarian' and are sometimes sympathetic."

Unfortunately, Symms and Hansen are illustrative of that breed of statist Republican who is only interested in individual freedom and limited government when it comes to protecting private profit. On most civil liberties issues, they are among the most Big Brother-oriented Congressmen in Washington.

Both Symms and Hansen, for example, are outspoken advocates of laws which make criminals out of persons who choose to use marijuana. Not only do they favor continuing the repressive marijuana laws of their home state of Idaho, but they support the current Federal (!) laws which prohibit the private use of marijuana in homes throughout the United States.

I cringe everytime I see a reference to either of these politicians as "libertarian." They espouse the rhetoric of individual liberty, but the substance of their politics belies any belief in it.

Gordon S. Brownell
West Coast Coordinator, NORML

COMING NEXT MONTH

REASON's July issue tackles that thorniest of libertarian issues: national defense. The editors have assembled three provocative approaches to the problem by outstanding thinkers. Earl C. Ravenal, foreign policy professor at Johns Hopkins, argues the case for noninterventionism in today's world. Taking a very different view is political scientist R. J. Rummel of the University of Hawaii, who argues that realistic defense today requires actions far beyond the nation's borders. Providing a theoretical perspective is contributing editor Eric Mack, who examines what "defense" is really all about, from the smallest community to the largest. Also in the issue is a discussion of the ominous threat posed by the possibility of a return to conscription, a critical look at the attempts of corporations to support the free market, and a revisionist view of Thomas Szasz's claim that mental illness is a myth.

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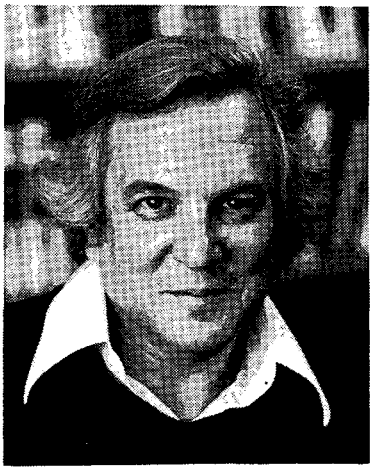

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by
TED NICHOLAS

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I'll also reveal to you some startling facts. Why lawyers often charge substantial fees for incorporating when often they prefer not to, and why two-thirds of the New York and American Stock Exchange companies incorporate in Delaware.

You may wonder how others have successfully used the book. Not only a small unincorporated business, but enjoyable hobbies, part time businesses, and even existing jobs have been set up as full fledged corporations. You don't have to have a big business going to benefit. In fact, not many people realize some very important facts. There are 30,000 new businesses formed in the U.S. each and every month. 98% of them are small businesses; often just one individual working from home.

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Dr. Franz Pick warns that within 2 to 3 years the U.S. will adopt a new dollar worth 10 to 20 old dollars

Dr. Franz Pick is one of the world's most respected experts on monetary affairs and precious metals. He studied law at the University of Leipzig, monetary theory at the University of Hamburg, and inflation-devaluation theory at the Sorbonne in Paris. His degrees include BS, MA, MBA, LLD, and PHD.

Dr. Pick is the Publisher of *Pick's World Currency Report* and *Pick's Currency Yearbook*, two publications noted for their authoritative and candid assessments of global currency events and trends. He is the author of 6 books on silver and gold, and a contributor to *Barron's*, *Playboy*, *Harper's* and the *Northern Miner*.

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On government bonds

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On the future of the country

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